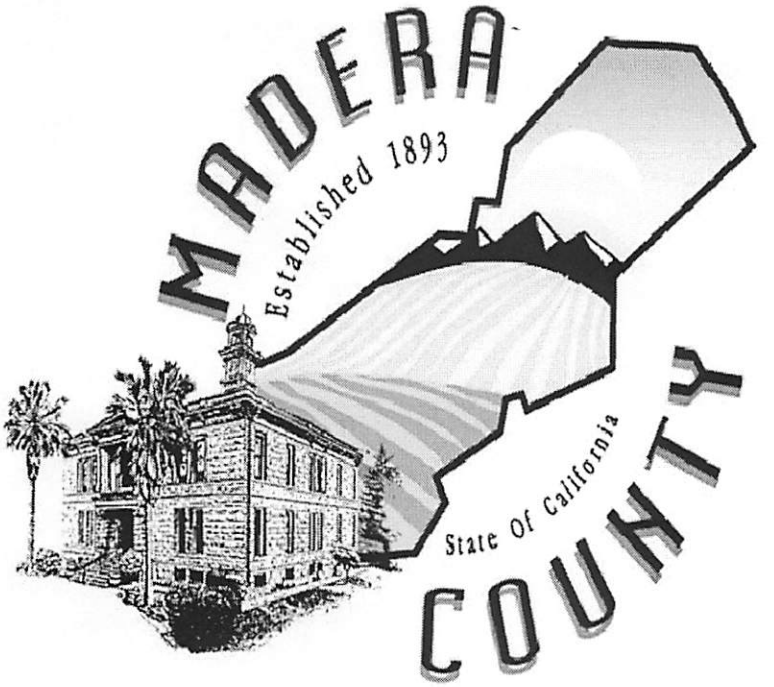


# INVESTMENT POLICY
# OF THE COMMINGLED INVESTMENT POOL

## TRACY KENNEDY DESMOND
## MADERA COUNTY TREASURER-TAX COLLECTOR

## FOR FISCAL YEAR
## (2013 - 2014)

POLICY STATEMENT

The Treasurer/Tax Collector is responsible for investing the surplus funds in the County Treasury in accordance with the California Government Code, Sections 53601 et. seq. and the Prudent Investor Standard. The surplus funds will be invested in such a manner following the fundamental principles of safety, liquidity and yield – in that order.

1. SAFETY/LEGALITY

   Investments should be made in instruments of high quality to avoid credit risk and/or loss of principal. Investments susceptible to wide price fluctuations due to market volatility should be avoided. Investments shall only be made in instruments legally permissible by the California Government Code, as hereafter amended for Madera County's needs.

2. LIQUIDITY

   Investments should be made in instruments maturing in such a manner to meet daily demands upon the Treasury. A certain degree of highly liquid instruments should be maintained at all times to accommodate unforeseen withdrawals or respond to opportunities for transactions arising from changing market conditions.

3. YIELD

   Because the County Treasurer is responsible for receiving and safekeeping ALL monies belonging to the county and all other monies directed by law to be paid into the treasury, investments are made for cash flow purposes first and yield is secondary. Operating within such parameters of safety and liquidity, the most favorable yield would then be considered.

4. TREASURY OVERSIGHT COMMITTEE

   The County Treasurer shall consult with and nominate to the Board of Supervisors certain potential committee members. The number of members on the committee shall be determined mutually by the Board and the County Treasurer. For Madera County on May 6, 1997 the Board of Supervisors designated the Auditor-Controller, the County Office of Education and the County Treasurer.

5. AUDITING

   Investment confirmations are received by an employee other than the individual performing the investment duties. The confirmations will be compared with information already recorded for that transaction. Any discrepancy will be reported to the County Treasurer for correction.

   Quarterly, the County Auditor performs a cash count of the County Treasury. Outside auditors annually audit the County including the office of the County Treasurer. Annually,

the county treasury oversight committee shall cause an annual audit to be conducted to determine compliance with this article and the investment policy (27134-27135). The costs of the audit may be included with those costs enumerated under Section 27013 of the Government Code.

6. REPORTING

The County Treasurer shall provide monthly, but not less than quarterly, a report of investments to all participating agencies not later than 30 days following the end of each quarter, to the Treasury Oversight Committee, the County Board of Supervisors, and County Superintendent of Schools, Madera Unified School District, and Special Districts. The monthly report will include a list of holdings as of the last day of the month and note:

1. the type of investment,
2. the institution,
3. date of maturity,
4. par amount,
5. book value,
6. end of month market value and source of value
7. a statement of compliance or an explanation of any variance, and
8. a statement of the ability to meet the pools expenditure requirement for the next six months or an explanation of why the expenditure requirement cannot be met.

The County Treasurer shall annually prepare an investment policy that will be reviewed and monitored by the legislative body of the local agency and the treasury oversight committee (27133).

7. SECURITY DEALERS & BROKERS

The County Treasurer shall determine which financial institutions are authorized to provide investment services to the County for the investment of County funds.

The Treasurer may trade or place securities with Broker/Dealers or Broker/Dealer firms who meet the following criteria:

A. A Primary government dealer as designated by the Federal Reserve Bank of New York;
B. The Federal Reserve Bank;
C. A Nationally or state-chartered bank;
D. Banks identified as one of the top 100 banks in the world, or
    1. Banks, brokers or dealers whose transactions are guaranteed by one of the top 100 banks in the world, or
    2. Banks, brokers or dealers whose parent company is one of the top 100 banks in the world.
E. Individual Broker/Dealer or Broker/Dealer firms provided they are:
    1. Registered and in good standing with the National Association of Securities Dealers (NASD);
    2. Licensed to conduct business in the State of California;

3. Have net capital in excess of $10 million with liquidity lines of $50 million or more; and
4. Have primary account representatives with five or more years experience in Madera County Pool Investment transactions.

Selection of financial institutions and broker/dealers authorized to engage in transactions with the County shall be accomplished at the sole discretion of the County Treasurer.

All potential broker/dealers will fill out a County questionnaire about their experience and capital of their respective companies. These questionnaires will be kept on file in the County Treasurer's office.

Broker/dealers or securities firms that make a political contribution to the County Treasurer exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board within four years following January 1, 1996, may not be selected to do business.

8. POOL PARTICIPANTS-INVOLUNTARY

The majority of funds on deposit in the County Treasury are funds under the control of the Board of Supervisors. State law requires school districts to deposit their funds in the county treasury unless the school board declares funds to be excess funds, in which case funds can be invested outside the county treasury. Special districts and cemetery districts are also required to deposit their funds in the county treasury.

9. POOL PARTICIPANTS-VOLUNTARY

A voluntary participant is any local agency who has applied for and been granted participation in the county investment pool. The local agency's treasurer or other official responsible for their funds has determined that they have excess funds which are not required for immediate use. Once the excess funds are identified, the local agency's legislative or governing body must adopt a resolution that authorizes the investment of the funds pursuant to Section 53684, and with the consent of the County Treasurer, deposit the excess funds in the county treasury for the purpose of investment by the County Treasurer pursuant to Section 53601 or 53635. The resolution shall specify that the local agency acknowledges and is willing to be bound by the withdrawal provisions of Section 27136, and that administrative charges will be deducted by the Treasurer as permitted by Sections 53684(b) and 27013. The Treasurer shall approve or disapprove such agency's request in writing.

10. WITHDRAWAL OF FUNDS FROM COUNTY POOL

Pursuant to Government Code Section 27136 any entity wishing to withdraw funds from the county treasury pool for the purpose of investing or depositing those funds outside the county treasury pool, shall first submit the request for withdrawal to the county treasurer before withdrawing funds from the pool. For any withdrawal over $2 million, it will be necessary to have 1 days notice in writing and withdrawals over $5 million will require a one week notice in writing.

## 11. AUTHORIZED INVESTMENTS AND LIMITS

The County may invest surplus funds from among the following authorized investments and within limits as specified. The percent of limitation for a particular category of investment shall only apply at the date of purchase. Additionally, a percent change that results from an increase of decrease of values or assets shall not constitute a limitation violation. Some instruments have no limit and no limit is specified, however the Rule of Prudence should apply.

A. Bonds issued by the local agency, including bonds payable solely out of the revenue from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency or authority of the local agency.

B. United States Treasury Bills, Notes, Bonds, and Certificates of Indebtedness, and those for which the full faith and credit of the United States is pledged for the payment of principal and interest. There is no percentage limit on the total dollar amount that may be invested in these issues.

C. Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency or authority of the state up to 1 million dollars.

D. Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

E. Obligations issued by Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. Although there is no percentage limit on the total dollar amount that may be invested in these issues, the Rule of Prudence should apply for a single agency name.

   1. Structured rate securities: Generally investments in these types of securities are allowed as long as there is no risk of a zero coupon or loss of principal. Specifically prohibited are inverse floaters, range notes or interest only strips derived from a pool of mortgages.

F. Bills of Exchange or Time Drafts drawn on and accepted by a commercial bank, otherwise known as Banker's Acceptances, both domestic and foreign, which are eligible for purchase by the Federal Reserve System. Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the surplus funds in

the County Treasury. However, no more than 30 percent of the Treasury's surplus funds may be invested in the banker's acceptances of any one commercial bank.

G. Commercial Paper The County may invest in commercial paper subject to the following concentration limits:

1. No more than 40 percent of the County's money may be invested in eligible commercial paper.
2. No more that 10 percent of the total assets of the investments held b the County may be invested in any one issuer's commercial paper, and
3. Eligible commercial paper shall have a maximum maturity of 270 days or less.

H. Negotiable Certificates of Deposit issued by a Federal or State Chartered bank or savings and loan association. Any investment in Negotiable Certificates of deposit may not exceed 30 percent of the County's surplus money, which may be invested. No more than 5 percent of the total portfolio shall be invested in any one name.

I. Non-negotiable Time Certificates of Deposit issued by a federally or State Chartered bank or a savings and loan association. These require full collateralization with government securities (110%) or mortgages (150%) in accordance with Government Code Section 53651. The Treasurer will determine eligibility of banks and savings and loans through the Findley report, which rates California Financial Institutions and ratings of the major rating agencies, Moody's, Standard & Poor and Fitch.

Investments with qualified institutions shall be equally distributed providing yields on investments are comparable. Investments with any one type of institution shall not exceed 50 percent of the portfolio and investments with any one institution shall not exceed 15 percent of the portfolio.

Investments shall be placed only with institutions with established stability and performance. All factors being equal, preference shall be given to institutions within Madera County.

J. Investments in Repurchase Agreements shall be restricted to nationally or state-chartered banks or primary security dealers with whom the Treasurer has entered into a Master Repurchase Agreement. A Repurchase Agreement is a purchase of securities by the County pursuant to an agreement by which the Bank/Dealer agrees to repurchase the securities on a specified date. Securities purchased through Repurchase Agreements from the Bank/Dealer are United States Treasury Bills, Notes or Certificates of Indebtedness, or instruments of or issued by a federal agency of the United States as authorized by section 11.B above, or money market instruments.

Investments in Reverse Repurchase Agreements or securities lending agreements are authorized so long as the proceeds are invested solely to supplement the income normally received from the securities. A Reverse Repurchase Agreement is a sale of

securities by the County pursuant to an agreement by which the county will repurchase such securities on or before a specified date and for a specified amount.

1. Reverse Repurchase Agreements is limited to 20% of the portfolio and only for specified purposes.

K. Medium Term Corporate Notes (MTN) of a maximum of five years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Securities eligible for Investment shall be rated in a rating category of "A" or its equivalent, or better, by a nationally recognized rating agency.

Purchase of MTN may not exceed 30 percent of the surplus funds in the County Treasury.

L. Shares of Mutual Funds issued by diversified management companies, as defined in Section 23701m of the Revenue and Taxation Code, investing only in the securities and obligations as authorized by Government Code Section 53635. To be eligible for investment, these companies shall either: (1) attain the highest ranking or the higher letter and numerical rating provided by not less than two of the three largest nationally recognized rating services; or 2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations as authorized and with assets under management in excess of five hundred million dollars ($500,000,000.00). The purchase price of shares of mutual funds shall not include any commission that these companies may charge and shall not exceed 15 percent of the surplus funds in the County Treasury.

M. Investments of funds in the Local Agency Investment Fund (LAIF- State of California) created by law, which the State Treasurer invests through the Pooled Money Investment Account. Money invested in LAIF is available overnight liquidity; however, it is also subject to a limited number of transactions per month. Money shall be placed in LAIF as alternative liquid investments under guidelines of this policy pertaining to yield. Investment of funds in the LAIF is limited to fifty million dollars ($50,000,000.00).

N. Shares of Beneficial Interest issued by joint powers authority (JPA) organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (n), of section 53601 inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority shall have retained an investment adviser that meets all of the following criteria:

1. The adviser is registered or exempt from registration with the Securities and Exchange Commission.

2. Has not less than five years experience investing in the securities and obligations as authorized, and
3. Have assets under management in excess of five hundred million dollars ($500,000,000.00).

12. CONFIRMATION

All confirmations should be reviewed for conformity with the original transaction by an individual who did not originate the transaction.

13. APPROVAL OF DEPOSITS

All financial institutions whether investment banks and dealers or commercial banks or savings and loans must be approved by the County Treasurer before receiving county funds. All firms with whom the County does business should have a strong capital base and have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal agency before any investments or deposits are placed with such firms.

14. LOSSES

Generally, losses are acceptable on a sale before maturity and should be taken if reinvested proceeds will earn an income flow with a present value higher than the present value of the income flow that would have been generated by the old investment.

14A. MAXIMUM RATE OF RETURN AND ALLOCATION OF LOSSES

The Pooled Investment Fund is designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investments, while important, is secondary to the safety and liquidity objectives.

The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities may be sold prior to maturity for the following reasons:

1. A declining credit security, to minimize loss of principal, and/or
2. A security swap, to improve the quality, yield, or target duration in the portfolio, and/or
3. The liquidity needs of the portfolio require that the security be sold.

If there is a realized loss of principal on a particular security, the loss will first be allocated against the interest earned on that security in the quarter in which the security is sold.

If the security's current interest is not sufficient to cover the loss, then the Auditor-Controller may allocate the loss against the total current and future portfolio interest earnings.

In the event of an imminent loss of principal for which the security's interest would not be sufficient to cover the loss, the Auditor-Controller may withhold from the total current and future portfolio interest earnings to reserve against a future maximum anticipated actual loss.

In the event that an estimated loss does not materialize, or is less than the set aside, the funds reserved from interest earnings to cover the estimated loss would be immediately released and apportioned on the following quarter to the interest earning funds in the pool.

15. SAFEKEEPING

Investment securities are to be held in customer-segregated safekeeping accounts (excluding Non-Negotiable Time Certificates of Deposit). And effective 4/1/97 this is with the Union Bank of California.

16. "WAIVER OF SECURITY" ON DEPOSITS

"Waiver of Security "on deposits covered by FDIC or FSLIC insurance shall be at the discretion of the Treasurer and will require the Treasurer's signature.

17. CREDIT FOR INTEREST RATES

California Government Code, Section 53684 (b) requires county treasurers to apportion quarterly to the local agencies or districts any interest earned from the investment of funds. Interest earned is in an amount proportionate to the average daily balance of the amounts the local agencies or districts deposit. The County Auditor-Controller shall conduct the apportionment process based on the net earnings of the Pool each quarter.

18. MAXIMUM DAYS TO MATURITY

Investment decisions are made with regard to safety, liquidity, cash flow needs and yield as a matter of policy. The Government Code allows maturities to 5 years. Over 5 years requires Board approval. Generally the maximum average time to maturity of County investments shall not exceed 2 years or 730 days. However, if extending maturities permit trading and portfolio advantages without significantly affecting cash flow needs, maturities may be extended past the prescribed limit.

19. PRUDENT INVESTOR STANDARD

The county treasurer is a trustee and therefore a fiduciary subject to the Prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the county treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the county and the other depositors. Within the limitations of this section and considering individual investments as part of an overall strategy, a trustee is authorized to acquire investments as authorized by law. Nothing in this

chapter is intended to grant investment authority to any person or governing body except as provided in Sections 53601, 53607, and 53635.

19 A. INDEMNIFICATIONS

The Treasurer and her staff, when acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes. Investments shall be made with judgment and care under circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs. Investments will not be made for speculation but for investment considering safety of capital as well as probable income to be derived.

20. COSTS OF MANAGING TREASURY COMMINGLED POOL (27013)

Actual costs of investing, depositing, banking, auditing, reporting and managing treasury pool funds are deducted from the gross interest earned account, the balance is then apportioned to the accounts on an average daily balance method. Certain staff are dedicated solely to Treasury functions and appropriately charged to the maintenance of the funds. Banking fees are charged in arrears after the costs for the previous quarter are known. Special functions or services required or requested by a certain entity are paid by that entity.

For directed investments outside of the county co-mingled pool, the charge shall be $120 per investment.

21. CONFLICT OF INTEREST

No employee may directly or indirectly accept or solicit from any person, corporation or group having a business relationship with the County, any rebate or kickback. No employee of the Treasurer's office shall outside of working hours, engage in any profession, trade, business or occupation, which is incompatible or involves a conflict of interest with his/her duties as a County Officer or employee.

22. RECEIPT OF HONORARIA, GIFTS AND GRATUITIES

Members of the County Treasury Oversight Committee are prohibited from receiving any honoraria, gift or gratuity from any advisor, broker, dealer, banker, or other person with whom the county treasury conducts business. (27133 (d))

Date 4-30-13

Tracy Kennedy Desmond

Tracy Kennedy Desmond
Treasurer - Tax Collector
County of Madera