

Orange County Treasurer



Investment Policy Statement

(Approved unanimously by the TOC – December 1, 2004)

KEY

RED TEXT – Additions

~~BLUE STRIKE OUT~~ - Deletions

TABLE OF CONTENTS

	Page No.
I. Policy Statement	3
II. Objectives	3-4
III. Scope.....	4-5
IV. Authorized Investments	5-7
V. Investment Restrictions and Prohibited Transactions.....	8-9
VI. Diversification and Maturity Restrictions.....	9-10
VII. Ethics and Conflict of Interest	10
VIII. Authorized Financial Dealers and Qualified Institutions.....	10-11
IX. Performance Evaluation.....	11
X. Safekeeping.....	11
XI. Collateralization.....	12
XII. Maintaining the Public Trust	12
XIII. Internal Controls	12
XIV. Compensation Agreement.....	13
XV. Voluntary Participants	13
XVI. Withdrawal.....	13-14
XVII. Performance Standards	14
XVIII. Investment Policy Review	14
XIX. Financial Reporting.....	14
XX. Legislative Changes	14
XXI. Disaster Recovery Program	15

ORANGE COUNTY TREASURER INVESTMENT POLICY STATEMENT

INTRODUCTION

The Orange County Treasurer's Investment Policy Statement is being filed annually with the County Board of Supervisors as required by California Government Code Section 53646 (a) (1) and the Treasury Oversight Committee, pursuant to the requirements of California Government Code Section 27133. This Investment Policy Statement represents applies to the Investment Funds (“the Funds”), the Money Market Fund and the Extended Fund, managed by the Orange County Treasurer’s office.

The Funds are comprised of the following separate Pools which are each invested in accordance with this Investment Policy Statement:

1. The Orange County Investment Pool
2. The Orange County Educational Investment Pool
3. John Wayne Airport Investment Pool

I. POLICY STATEMENT

It is the policy of the Orange County Treasurer (the “Treasurer”) to invest public funds in a manner which will provide the maximum security of principal invested with secondary emphasis on achieving the highest yield while meeting the daily cash flow needs of the pool participants and conforming to all applicable State statutes and County resolutions governing the investment of public funds.

The Orange County Investment Funds are designed to meet both the investment and cash requirements of our participants. The Treasurer shall determine on a cash flow basis what percent of available cash will be invested in both Funds.

The Money Market Fund is invested in cash-equivalent securities, therefore providing liquidity for immediate cash needs. This fund is based on the investment guidelines detailed in California Government Code Section 53601.7~~–~~, which parallels Rule 2a-7.

The Extended Fund is for cash requirements past one year. This Fund will be invested in high grade securities for yield enhancement. This fund is based on California Government Code Section 53601 and 53635.

The Treasurer’s investment holdings may include “specific investments” that were made upon the authorization of a participant’s governing board or for bond proceeds as permitted in a bond’s official documents. Specific investments may fall outside the parameters of this Investment Policy Statement.

The above short-term investment pools may include deposits that are set aside for future

needs of a long-term nature and may, therefore, be appropriately invested in longer term securities. Identified deposits suitable for a longer investment strategy, such as, matching maturities with long-term liabilities will be invested according to the prudent man rule (Section III. Scope). These deposits, established as a specific investment, may be invested in a laddered portfolio for up to ten years. The Treasurer may phase in purchases of various maturities over a four-year period. These investments will be held to maturity, unless market conditions dictate otherwise and approval by the parties involved has been received. Credit risk is eliminated through the purchase of various forms of U.S. Treasury securities. Participating agencies will sign a written agreement acknowledging that there may be interest-rate risk that would be avoided by holding investments to maturity. This agreement will be reviewed with the participating agency on an annual basis.

II. OBJECTIVES

The primary objectives, in priority order, of the Treasurer's investment activities shall be:

1. SAFETY OF PRINCIPAL

Safety of principal is the foremost objective of the Treasurer. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this goal, diversification is required in the portfolio's composition.

2. LIQUIDITY

The Money Market Fund will be substantially liquid for the purpose of meeting all operating requirements which might be reasonably anticipated. "Liquidity" refers to the recurring maturity of a portion of the investment portfolio, as well as, the ability to sell an investment at any given moment with a minimal chance of losing some portion of principal or interest.

3. YIELD

The Funds are designed with the objective of attaining a competitive rate of return throughout budgetary and economic cycles, which is commensurate with the Funds' investment risk constraints and the cash flow characteristics of each portfolio.

Although the Treasury may employ certain indexes with respect to the Funds' intention of earning a competitive rate of return, such index(es) shall be used solely for comparative purposes and do not constitute a warranty or guarantee of actual Fund performance.

4. MARK-TO-MARKET

To the extent reasonably possible and consistent with the Treasurer's trust and fiduciary duty, the Money Market Fund will attempt to stabilize at a \$1 net asset value (NAV). If the ratio of the market value of the Money Market Fund divided by the book value of the Money Market Fund is less than \$.995 or greater than \$1.005, holdings may be sold as necessary to maintain the ratio between \$.995 and \$1.005.

The Treasurer will act on a "best efforts" basis to stabilize the Money Market Fund within the \$.995 to \$1.005 range, however, the \$1 Net Asset Value is not guaranteed or insured by the Treasurer.

III. SCOPE

By County Resolution #03-377, effective December 9, 2003, the County Board of Supervisors has delegated to the Treasurer authority to invest and reinvest the funds of the County and other depositors as specified in California Government Code Sections 27000.1, 53607 and 53608. Such delegation is conditioned upon the Treasurer submitting any and all investment policies and amendments thereto to the Board for review and approval. The Treasurer may further delegate investment authority to such persons within the Treasurer's Department as deemed appropriate.

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the County Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the County and other depositors 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.

The standard of prudence to be used by County investment officers shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers shall act in accordance with written procedures and investment policy and exercise due diligence and shall report in a timely fashion and exercise appropriate action to control adverse developments.

IV. AUTHORIZED INVESTMENTS

Consistent with the requirements of law and this Investment Policy, the Treasurer may place orders for the execution of transactions with or through such brokers, dealers, banks and repurchase agreement counter parties as may be selected from time to time in his/her discretion.

To the extent consistent with the objectives stated above, the investment restrictions outlined below, and the investment limitations specified in Section V and VI, the assets of both the Money Market and Extended Funds may be invested in the following areas:

1. U. S. TREASURY SECURITIES

United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest.

2. U. S. GOVERNMENT AGENCY SECURITIES

Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise.

3. COMMERCIAL PAPER

Eligible commercial paper shall not exceed 270 days maturity nor represent more than 10% of the outstanding paper of any single issuer. Issuers of commercial paper must meet the following criteria:

- a. Organized and operating in the United States as a general corporation, special purpose corporation, trust, or limited liability company.
- b. Have total assets in excess of five hundred million dollars (\$500,000,000) or programwide credit enhancements, such as, overcollateralization, letters of credit or surety bond.

4. NEGOTIABLE CERTIFICATES OF DEPOSIT

Negotiable certificates of deposit issued by a U.S. national or state-chartered bank or state or federal association (as defined by Section 5102 of the California Financial Code) or by a state-licensed branch of a foreign bank. The Money Market Fund is authorized to purchase U.S. Dollar denominated certificates of deposit issued from the London, England branch of foreign and U.S. domestic banks (euro certificates of deposit). Eligible foreign banks must have branches or agencies in the U.S.

5. REPURCHASE AGREEMENTS & SECURITIES LENDING AGREEMENTS

Investments in repurchase agreements and/or securities lending agreements may be made on any securities authorized herein. Agreements are subject to California Government Code Section 53601.7 and must comply with the delivery requirements and the maturity provision from Section 53601.

Investments in repurchase agreements for the purpose of this policy (as defined by section 53601 and 53601.7(e)(8) of the California Government Code) means a purchase of securities by the Treasurer pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the Treasurer by book entry, physical delivery, or by third party custodial agreement. The final maturity of repurchase agreements shall not exceed one year. The term "securities," for the purpose of repurchase agreements, shall mean securities of the same issuer, description, issue date, and maturity.

To participate in repurchase agreements, a Public Securities Association (PSA) must be completed and signed by all parties involved. The Treasurer will maintain a signed copy of the Agreement. At a minimum, the collateral for repurchase agreements must be valued at 102% (market value of principal and accrued interest), and shall be adjusted no less frequently than weekly. For compliance purposes, the investment restrictions from Section V.4. herein consider U. S. Treasury and/or agency collateral exempt from issuer limits. Repurchase agreements collateralized by all other authorized securities will be subject to the 5% maximum using the seller (broker/dealer) as the issuer.

Securities Lending Agreements (as defined by section 53601 and 53601.7(f)(4) of the California Government Code) means an agreement with a local agency transferring securities to a borrower who in turn provides specific collateral (securities and/or cash) to

the local agency. During the term of the agreement both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral. An agent may be used to facilitate the transferring of securities to a borrower. The final maturity of a securities lending agreement shall not exceed 92 days.

To participate in securities lending agreements, a covenant must be completed and signed by all parties involved. The Treasurer will maintain a signed copy of this covenant.

6. **BANKERS ACCEPTANCES**

Primarily used to finance international trade, bankers acceptances are time drafts (bills of exchange) drawn on and accepted by a commercial bank. Purchases of bankers acceptances shall not exceed 180 days maturity. Issuing banks must be rated by at least two of the nationally recognized rating agencies.

7. **MONEY MARKET MUTUAL FUNDS**

Shares of beneficial interest issued by diversified management companies, **also known as mutual funds**, ~~that~~ invest in the securities and obligations authorized by California Government Code Sections 53601(k) (for the Extended Fund) or 53601.7(e)(10) (for the Money Market Fund);. **Mutual funds are not required to conform to the restrictions detailed in this Investment Policy Statement. At a minimum, ~~are money market approved mutual~~ funds will be** registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.) and shall have met either of the following criteria:

- a. Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized rating services.
- b. Retained 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 authorized by California Government Code Section 53601 subdivisions (a) to (j) and (m) to (n) and with assets under management in excess of \$500,000,000.

~~Money market mutual funds that meet all other investment criteria, and which invest in eligible "floating rate notes" (See Section V., Paragraph 8.) are an eligible investment. Money market mutual funds that invest in prohibited floating rate or variable rate securities are ineligible for investment.~~

8. **STATE OF CALIFORNIA OR MUNICIPAL DEBT**

Such bonds are defined as being issued by a local California agency, including:

- a. 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.
- b. Registered state warrants or treasury notes or bonds of the State of California, 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.

- c. 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.

9. RECEIVABLE-BACKED SECURITIES

Consumer receivable pass-through certificate or consumer receivable-backed bond with a maximum of 90 days maturity. Securities eligible for investment shall have a credit rating of “AA” or better and its issuer shall have a credit rating of “A” or higher for the issuer’s debt by at least two nationally recognized rating services.

10. MEDIUM-TERM NOTES

Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity not more than 397 days for the Money Market Fund and three years for the Extended Fund. Medium-term notes must be 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.

NEW INVESTMENTS

~~Only the Money Market Fund may invest in the following:~~

11. FUNDING AGREEMENTS

Contracts issued by insurance companies provide ~~that~~ the holder with the right to receive a fixed or variable rate of interest and the full return of principal at the maturity date.

Only the Money Market Fund may invest in Funding Agreements.

12. OTHER

Securities that meet the terms of an “eligible security” as defined under SEC Rule 2a-7 of the Investment Company Act of 1940 including liquidity notes, extended commercial notes, any security with an unconditional demand feature, guarantee, or put, etc. Any eligible security not detailed in this document will be limited to 10 percent of the Money Market Fund and have a maturity of 397 days or less. **Only the Money Market Fund may invest in securities classified as “other.”**

V. INVESTMENT RESTRICTIONS AND PROHIBITED TRANSACTIONS

1. CREDIT MINIMUM:

The credit ratings referred to below are assigned by Nationally Recognized Statistical Rating Organization (NRSRO).

Short-term debt – (two of the following)

“A-1” Standard & Poor’s Corporation (S&P)

“P-1” Moody’s Investors Service, Inc. (Moody’s)

“F-1” Fitch Ratings (Fitch)

An issuer of short-term debt must have no less than an “A” on long-term debt, without regard to +/- or 1,2,3 modifiers, if any.

Long-term debt –

Shall be rated no less than an “A-”, for the Money Market Fund and “AAA” for the Extended Fund (on securities with a maturity over 397 days), without regard to +/- or 1,2,3 modifiers, by two NRSRO’s .

If an issuer of long-term debt has a short-term rating it must meet the requirements above.

2. CREDIT RATING AVERAGE- PORTFOLIO

The Treasurer’s Investment Division will compute the portfolio’s month-end weighted average credit rating (WACR) for purposes of section VI. (chart #3). The following matrix is the basis of the WACR computation:

Long-Term Rating Scales Comparison

	Long-Term Rating	Short-Term Rating*
1	AAA / Aaa	
2	AAA / Aa1 or AA+ / Aaa	
3	AA+ / Aa1	A1+ / P1
4	AA+ / Aa2 or AA / Aa1	
5	AA / Aa2	
6	AA / Aa3 or AA- / Aa2	
7	AA- / Aa3	A1 / P1
8	AA- / A1 or A+ / Aa3	
9	A+ / A1	
10	A+ / A2 or A / A1	
11	A / A2	
12	A / A3 or A- / A2	A1 / P2 or P2 / A1
13	A- / A3	

Inconsistent credit ratings are deferred to the lower level. * Use only if there is no Long-Term Rating.

- No more than 5% of the total market value of the Funds may be invested in securities of any one issuer with the exception of obligations of the U.S. Treasury, federal agencies, and U. S. government-sponsored enterprises. No more than 10% may be invested in one Money Market Mutual Fund.
- All investments will be U.S. dollar denominated.
- Any investment transactions, credit risk criterion, percentage limitations or market valuation that are not in compliance with this Investment Policy Statement must be documented and approved by the Treasurer in writing. Thereafter, action shall be taken by the Treasurer to correct such matter as soon as practical.

6. At the time of purchase, all permitted investments shall conform in all respects with this Investment Policy Statement and with California Government Code Sections 53601, 53601.1, 53601.2, 53601.6, 53601.7, 53631.5, and 53635 as such may be amended from time to time. If a percentage restriction is adhered to at the time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction. Furthermore, if a credit rating standard is adhered to at the time of purchase, a later downgrade in credit rating will not constitute a violation of that standard. Securities which are downgraded below the minimum acceptable rating levels must be reviewed for possible sale within a reasonable amount of time.
7. Borrowing for investment purposes ("Leverage") is prohibited.
8. Reverse Repurchase Agreements, as defined by California Government Code Section 53601.7(e)(8) or otherwise are prohibited. **See IV.7. for money market mutual funds.**
9. Instruments known as "Structured Notes" (e.g. inverse floaters, leveraged floaters, structured certificates of deposit, equity-linked securities) and "Derivatives" (e.g. options, futures, swaps, caps, floors, collars) are prohibited. For the purpose of identifying ineligible securities, the definition of prohibited "Structured Notes" and "Derivatives" includes all floating-rate, adjustable-rate or variable-rate securities in which a change in interest rates or other variables that can reasonably be foreseen to occur during their term would result in their market value not returning to par at the time of each interest rate adjustment.

Simple "floating rate notes," whose periodic coupon adjustment is based on a short-term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate or LIBOR) and which have a reasonable expectation of maintaining a value of par at each interest rate adjustment through final maturity, are considered an eligible investment. Eligible "floating rate notes" (U. S. Government Agencies, Certificates of Deposit, Medium-Term Notes, etc.), must meet all quality, maturity and percent limitations assigned to their respective security category.

Callable securities, which otherwise meet the quality, maturity and percent limitations assigned to their respective security category, are considered to be an acceptable investment. U.S. Treasury and Agency zero coupon bonds, U.S. Treasury and Agency strips and Resolution Funding Corporation (REFCORP) strips are considered to be an acceptable investment. No investment prohibited by California Government Code Sections 53601.6 shall be permitted herein.

10. Securities, which are currently under "Credit Watch-Negative" by any of the three nationally recognized credit rating agencies, are not eligible securities under this policy.

VI. DIVERSIFICATION AND MATURITY RESTRICTIONS

The money market fund is authorized to purchase an additional 5-percent of its total assets in any authorized investment type **except commercial paper**, Section IV, for a period not to exceed 30 business days. The Treasurer may not invest over the maximum maturities criteria or weighted average maturity (WAM) limitations. The Treasurer’s monthly management report will specify any investing under the above provision.

Commercial paper holdings in the Money Market Fund may increase up to 50 percent of the total assets if the portfolio’s month-end weighted average credit rating (WACR) remains at AA- or higher. The Treasurer’s Investment Committee will review on a monthly basis the portfolio’s compliance. If the month-end WACR has decreased below AA-, commercial paper holdings will be returned to a maximum of 45 percent through attrition.

Except as noted above, diversification standards by security type for the Money Market Funds and Extended Fund shall comply with the following:

1. U.S. Treasuries and securities having principal and/or interest guaranteed by the U.S. Government	100%
2. U.S. Government agencies, and government sponsored enterprises	100%
3. Commercial Paper – Money Market Fund Commercial Paper – Extended Fund Commercial Paper – Combined	no more than 40 45% no more than 40% no more than 40%
4. Negotiable Certificates of Deposit	no more than 30%
5. Repurchase Agreements	no more than 50%
6. Bankers' Acceptances	no more than 40%
7. Money Market Funds	no more than 20%
8. State and Local Agency Obligations	no more than 10%
9. Receivable-Backed Securities	no more than 10%
10. Medium-Term Notes	no more than 30%
11. Funding Agreements and Other	no more than 10%

1. The average maturity of the Funds, on a dollar-weighted basis, will be as follows:

Money Market Fund	not to exceed 90 days
Extended Fund	18 months

2. The maximum maturity of any portfolio instrument purchased by the Funds will be:

Money Market Fund	13 months (397 days)
Extended Fund	3 years

3. The maturity of a variable-rate security may be considered its next interest rate reset date, if there is a reasonable expectation that the security will maintain an

approximate value of par upon each adjustment of the security's interest rate at any time until final maturity.

4. It is the policy of the Treasurer to diversify the Funds' portfolios. Investments are diversified to minimize the risk of loss resulting in over concentration of assets in a specific maturity, specific issuer, or a specific class of securities. Diversification strategies shall be established by the Treasurer's Investment Committee and periodically reviewed.

VII. ETHICS AND CONFLICT OF INTEREST

The Treasurer and all investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The Treasurer and all investment personnel shall disclose to the Treasury Oversight Committee any material financial interests in financial institutions which conduct business with the County of Orange and shall disclose any material financial investment positions which could be related in a conflicting manner to the performance of the County of Orange's investment portfolio.

On May 10, 1993, the Orange County Board of Supervisors passed the "Orange County Gift Ban Ordinance" (see Exhibit B attached). This ordinance prohibits the receipt of specified gifts to "designated employees" including members of the Treasury Oversight Committee. The County Treasurer, Assistant Treasurer, Investment Officer, Assistant Investment Officer and Treasury Oversight Committee members shall complete on an annual basis, State of California Form 700, Statement of Economic Interests Disclosure. In addition, each member mentioned above is subject to the State Gift Ban restrictions. Should any conflicts be disclosed, the Treasurer will resolve such matters as soon as practical.

VIII. AUTHORIZED FINANCIAL DEALERS AND QUALIFIED INSTITUTIONS

A list of broker/dealers (Qualified Institutions) authorized to provide investment **services products** to the Treasurer shall be maintained. Any permitted investment, not purchased directly from the issuer, shall be purchased either from a "primary" or regional broker/dealer qualifying under SEC Rule 15c3-1(uniform net capital rule) or a "well capitalized" financial institution, as defined in Title 12 of the Code of Federal Regulations (CFR) Part 6.4. **Qualified institutions must comply with the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board (Section 27133(c)).** A detailed questionnaire is required to be completed by securities dealers and financial institutions wishing to be approved (see attached Exhibit A). The Treasurer shall make a best effort to conduct an annual review of each Qualified Institution's financial condition and registrations to determine whether it should remain on the approved list.

Neither Merrill Lynch, nor any subsidiary or affiliate of Merrill Lynch shall be considered a Qualified Institution to act as a broker/dealer in the purchase or sale of securities or in any depository or consulting capacity with respect to any moneys or securities in the treasury, without the express prior approval of the Board of Supervisors.

~~Once approved, Qualified Institutions are required to provide the Treasurer a current audited financial statement and MSRB Rule G-37 filing or a signed statement of explanation why this filing is not available/applicable. California Government Code Section 27133(e) prohibits the approval of any firm that has, within any consecutive 48-month period from January 1, 1996, made a political contribution to the Treasurer or to any member of the Board of Supervisors of the County or to any candidate for these offices in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board. The Treasurer shall make a best effort to conduct an annual review of each Qualified Institution's financial condition and registrations to determine whether it should remain on the approved list.~~

~~Public deposits shall be made in qualified public depositories as established by California Government Code. In addition, qualified public depositories shall meet certain other criteria as determined by the Treasurer.~~

IX. PERFORMANCE EVALUATION

The Treasurer shall submit monthly, quarterly and annual reports (in compliance with Government Code Sections 53607, 53646, and 27134) to the Treasury Oversight Committee, the Pool participants, the Chief Executive Officer, the Internal Audit Director, the Auditor-Controller and the Board of Supervisors. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with Government Code. In accordance with GASB Statements 3 and 31, the Treasurer shall provide financial information on the treasury for the County's Comprehensive Annual Financial Report.

X. SAFEKEEPING

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a delivery-versus-payment (DVP) basis.

All securities shall be held by a third party custodian designated by the Treasurer and approved by the Treasury Oversight Committee. The third party custodian shall be required to issue a safekeeping statement to the Treasurer listing the specific instrument, rate, maturity and other pertinent information.

XI. COLLATERALIZATION

Repurchase agreements and securities lending agreements are required to be collateralized by securities or cash authorized under California Government Code Section 53601.7(e). In order to anticipate market changes and provide a level of security for all repurchase agreement and securities lending agreement transactions, the collateralization level will be a minimum of 102% of market value of the principal and accrued interest and shall be adjusted no less frequently than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

Collateral will be held by an independent third party with whom the Treasurer has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to the Treasurer and retained. The Treasurer retains the right to substitute or grant substitutions of collateral.

XII. MAINTAINING THE PUBLIC TRUST

All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

XIII. INTERNAL CONTROLS

The Treasurer shall establish a system of written internal controls, which will be reviewed annually with the County's independent (external) auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, unanticipated market changes or imprudent actions by employees of the Treasurer's Office. The Treasurer shall evaluate any audit reports in a timely manner with the Treasury Oversight Committee. The quarterly audit reports of the Treasury shall be provided as required by California Government Code Section 26920-26923. Daily compliance of the investment portfolio shall be performed by the Treasurer's Compliance Division.

The Treasurer shall develop and maintain written administrative procedures for the operation of the investment program which are consistent with this investment policy. Procedures will include reference to safekeeping, Public Securities Association Master Repurchase Agreements, wire transfer agreements, collateral and depository agreements, banking service contracts, and other investment and banking related activities. Such procedures shall include explicit delegation of authority to personnel responsible for investment transactions.

The Treasurer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the County Treasurer is not present. No investment personnel

may engage in an investment transaction except as provided under terms of this policy and the procedures established by the County Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of Treasury personnel

XIV. COMPENSATION AGREEMENT

As authorized by California Government Code Section 27013, the Treasurer will charge all pool participants for administrative and overhead costs. Costs include, but are not limited to, portfolio management, bank and custodial fees, software maintenance fees, and other indirect costs incurred from handling or managing funds. In addition, the costs of compliance with the Treasury Oversight provisions of Government Code §27130-27137 shall be included as administrative costs. The Treasurer shall annually prepare a proposed budget revenue estimate, providing a detailed itemization of all estimated costs which comprise the administrative fee charged in accordance with California Government Code Section 27013.

The administrative fee will be subject to change; the administrative and overhead fees will be reviewed by the Treasury Oversight Committee on an annual basis.

Investment earnings and the above fee charge will be allocated to the pool participants on a monthly basis. As of the first working day of the next month, the pool participants' account will reflect the gross investment earnings and the monthly administrative and overhead costs.

NOTE: The current administrative fee range is estimated to be between ten and twenty basis points. Please consult the monthly Summary of Apportionment Yields for the most recent charge.

XV. VOLUNTARY PARTICIPANTS

Should a local agency within Orange County not required by California law to deposit monies with the Treasurer desire entry into the Treasurer's Investment Pool, the agency shall comply with the requirements of Section 53684 of the California Government Code and provide to the Treasurer a resolution adopted by its governing board stating that excess funds are available for the purpose of investment. The resolution shall specify that the local agency authorizes the investment of excess funds pursuant to Section 53684, those persons authorized at the agency to coordinate the transactions, the agency's willingness to be bound by the withdrawal provisions of California Government Code Section 27136, and the agency's understanding that administrative charges will be deducted by the Treasurer as permitted by Sections 53684(b) and 27013. Subject to the approval/disapproval of the County Board of Supervisors, the Treasurer shall approve or disapprove such agency's request in writing.

Monies deposited by local agencies approved for entry into the Treasurer's Investment Pool will be invested in the Money Market Fund. To participate in the Extended Fund, the

local agency must sign a waiver indicating their understanding of the possible NAV risk involved.

XVI. WITHDRAWAL

Withdrawal of participant funds for the purpose of investing or depositing these funds outside the County treasury shall require prior written approval from the Treasurer. The Treasurer shall thereafter review the withdrawal request consistent with his/her trust and fiduciary duties. Prior to approving or disapproving the withdrawal request, the Treasurer shall make a finding of the effect on the stability and predictability of the investments and on the interests of the other depositors in the County treasury. (California Government Code Sections 27000.3, 27133(h), 27136, 53684(c).)

XVII. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The Treasurer's investment strategy is active. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the indices most comparable to the Fund, such as money rate data published in Barron's, The Wall Street Journal, Bloomberg, etc.

The standards enumerated herein do not constitute a guarantee of the Fund's performance.

XVIII. INVESTMENT POLICY REVIEW

The Treasurer's investment policy shall be presented to and annually reviewed and approved by the Board of Supervisors in an open session. The Board of Supervisors also review and approve any changes to the investment policy. The policy shall also be reviewed on an annual basis by the Treasury Oversight Committee.

XIX. FINANCIAL REPORTING

The monthly Treasurer's Management Report and any Audit Report shall be provided to the Orange County Board of Supervisors, Chief Executive Officer, Chief Financial Officer, Internal Audit Director, Auditor-Controller, Treasury Oversight Committee and the director or director executive officer of any local agency who has investments in the County's Investment Funds as required by California Government Code Sections 53646 and 53686.

All reports filed by the Treasurer in accordance with California Government Code Section 53646 shall, among other matters, state compliance of the portfolio with the Investment Policy Statement, or the manner in which the portfolio is not in compliance. A statement will also be filed by the Treasurer in accordance with California Government Code 53646 (b) denoting the ability of each pool to meet its expenditure requirements for the next six months or provide an explanation of why sufficient money may not be available.

XX. LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment type or percentage allocations, will, upon effectiveness, be incorporated into the Orange County Treasurer's Investment Policy Statement and supersede any and all previous applicable language.

XXI. DISASTER RECOVERY PROGRAM

The County of Orange Treasurer-Tax Collector's Disaster Plan includes critical phone numbers and addresses of key personnel, as well as, active bankers and broker/dealers. Three copies of the Disaster Plan for home, office and car have been distributed to department officers including the Investment Officer. The plan provides for an offsite location to be communicated at the time of readiness if our offices are uninhabitable.

In the event the Investment Officer is unable to invest the portfolio, the Bank of New York Cash Reserve Account will automatically sweep all uninvested cash with the custody bank into an interest-bearing account. Until normal operations of the Treasurer's office have been restored, the limitations on the size of an Individual issuer and the percentage restrictions by investment type would be allowed to exceed those approved in this Investment Policy Statement.

TOC Approved IPS CHANGES – Page by Page KEY

RED Text – Additions
~~BLUE Strikeout~~ – Deletions

Page 3 – INTRODUCTION - grammatical corrections

Page 3 – POLICY STATEMENT – Money Market Fund -
clarification of Government Code 53601.7

Pages 3-4 – POLICY STATEMENT – Extended Fund –
Clarification of ability to purchase specific longer-term investments at the
request of agencies with long-term liabilities (e.g. – Integrated Waste
Management).

Page 7 – MONEY MARKET MUTUAL FUNDS – clarification of money market mutual
funds policy as recommended by County Counsel.

Page 8 – FUNDING AGREEMENTS and OTHER – clarification of authorized
investments for the Money Market Fund.

Page 9 – LONG-TERM DEBT – clarification of internal policy regarding AAA only
purchases for the Extended Fund.

Page 9 – CREDIT RATING AVERAGE-PORTFOLIO – addition of chart/formula
utilized in computing monthly the weighted average credit rating (WACR)
by the Treasurer.

Page 10 – REVERSE REPURCHASE AGREEMENTS - clarification of money market
Mutual funds policy as recommended by County Counsel.

Page 11 – DIVERSIFICATION AND MATURITY RESTRICTIONS – clarification of
ability to, under special circumstances, purchase up to 50% in commercial
paper, from a newly requested level of 45%, provided the WACR remains
above AA- or higher.

Pages 12-13 – AUTHORIZED FINANCIAL DEALERS AND QUALIFIED
INSTITUTIONS – clarification that products and not investment advice is
procured from approved Broker-Dealers. In addition, ensuring Rule G-37
of the Municipal Securities Rulemaking Board (MSRB) is complied with
by approved Broker-Dealers.