Contra Costa County Schools Insurance Group
Investment Policy
As of March 28, 2019

I. Policy Introduction

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities.

The investment policies and practices of Contra Costa County Schools Insurance Group ('"the Group") are based on state law and prudent money management. All funds will be invested in accordance with the Group's Investment Policy, California Government Code Sections 53600 et seq. and 53630 et seq., and Education Code Sections 41001 and 41015. If the Group issues bonds in the future, the investment of bond proceeds will be further restricted by the provisions of relevant bond documents.

II. Scope

It is intended that this policy cover all funds (except retirement funds) and investment activities under the direction of the Group.

III. Prudence

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investments shall be made with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, 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 agency.

IV. Objectives

The primary objectives, in priority order, of the investment activities of the Group shall be:

1) <u>Safety</u>. Safety of principal is the foremost objective of the investment program. Investments of the Group shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.

2) <u>Liquidity</u>. The investment portfolio of the Group will remain sufficiently liquid to enable the Group to meet its cash flow requirements.

3) <u>Return on Investment</u>. The investment portfolio of the Group shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

V. Delegation of Authority

The management responsibility for the investment program is hereby delegated to the

Executive Director who shall monitor and review all investments for consistency with this investment policy. No person may engage in an investment transaction except as provided under the limits of this policy. The Group may delegate its investment decision making and execution authority to an investment advisor. The advisor shall follow the policy and such other written instructions as are provided.

VI. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

VII. Authorized Financial Dealers and Institutions

The Executive Director will maintain a list of approved financial institutions authorized to provide investment services to the public agency in the State of California. A determination should be made to insure that all approved broker/dealer firms, and individuals covering the public agency, are reputable and trustworthy. In addition, the broker/dealer firms should have the ability to meet all of their financial obligations in dealing with the Group. The firms, and individuals covering the Group, should be knowledgeable and experienced in Public Agency investing and the investment products involved. No public deposit shall be made except in a qualified public depository as established by the established state laws. All financial institutions and broker/dealers who desire to conduct investment transactions with the public agency must supply the Executive Director with the following: audited financial statements, proof of NASD certification, trading resolution, proof of State of California registration, completed broker/dealer questionnaire, certification of having read the Group’s investment policy and depository contracts.

An annual review of the financial condition and registrations of qualified broker/dealers will be conducted by the Executive Director. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the (Local Agency) invests.

VIII. Authorized and Suitable Investments

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

2. 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.

3. Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled or operated by the state or any local agency or by a department, board, agency or authority of the state or any local agency, or registered treasury notes or bonds of any of the other 49

United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California; provided that the obligations are rated in one of the three highest categories by Moody's or Standard and Poor's.

4. Repurchase Agreements used solely as short-term investments not to exceed 30 days.

   The Group may enter into Repurchase Agreements with primary dealers in U.S. Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York.

   The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the Group's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each Repurchase Agreement must equal or exceed 102 percent of the total dollar value of the money invested by the Group for the term of the investment. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed at least 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.

   Market value must be calculated each time there is a substitution of collateral.

   The Group or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

   The Group will have properly executed a PSA agreement with each counter party with which it enters into Repurchase Agreements.

5. Reverse Repurchase Agreements may be used only after prior approval by the Group's Board of Directors. If a reverse repurchase agreement is authorized, it may be utilized only if the security to be sold on reverse repurchase agreement has been owned and fully paid for by the Group for a minimum of 30 days prior to the sale; the total of all reverse repurchase agreements on investments owned by the Group does not exceed 20 percent of the base value of the portfolio; and the agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of the security using a reverse repurchase agreement and the final maturity date of the same security. The proceeds of the Reverse Repurchase Agreement may not be invested in securities whose maturity exceeds the term of the Reverse Repurchase Agreement.

   The Group may enter into Reverse Repurchase Agreements only with primary dealers in U.S. Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York.

   The Group will have properly executed a PSA agreement with each counter party with which it enters into Reverse Repurchase Agreements.

6. Banker's Acceptances issued by domestic or foreign banks, the short-term paper of which is rated in the highest rating category as provided for by a nationally recognized statistical rating organization.

   Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the Group's investment portfolio. No more than 5 percent of the Group's investment portfolio may be invested in the Banker's Acceptances of any one commercial bank.

7. Commercial paper rated in the highest letter and number rating as provided for by a nationally recognized statistical rating organization. The entity that issues the commercial paper shall meet all of the conditions in either paragraph (a) or paragraph (b) below:

   (a) The entity meets the following criteria:
   - (i) Is organized and operating in the United States as a general corporation.
   - (ii) Has total assets in excess of five hundred million dollars ($500,000,000).
   - (iii) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization.

   (b) The entity meets the following criteria:
   - (i) Is organized within the United States as a special purpose corporation, trust, or limited liability company.
   - (ii) Has program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
   - (iii) Has commercial paper that is rated in a rating category of "A-1" or its equivalent or higher by a nationally recognized statistical-rating organization.

   Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation.

   Purchases of commercial paper may not exceed 25 percent of the Group's investment portfolio. No more than 5 percent of the Group’s funds may be invested in commercial paper issued or guaranteed by any one issuer.

8. Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, 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. Medium-term corporate notes shall be rated in one of the three highest rating categories (i.e. a rating category of “A” or its equivalent or higher) as provided for by a nationally recognized statistical rating organization.

   Purchase of medium-term corporate notes may not exceed 30 percent of the Group's investment portfolio. No more than 5 percent of the Group’s funds may be invested in medium-term notes issued or guaranteed by any one issuer.

9. FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California, including U.S. branches of foreign banks licensed to do business in California. All time deposits must be collateralized in accordance with California Government Code, either at 150% by promissory notes secured by first mortgages and first trust deeds upon improved residential property in California eligible under section 53651 (m) or at 110% by eligible marketable securities listed in subsections (a) through (l) and (n) and (o). The Group, at its discretion and by majority vote of the Board of Directors, on a quarterly basis, may waive the collateralization requirements for any portion of the deposit that is covered by federal insurance.

   Government Code sections 53601.8 and 53635.8 permit public agencies to use placement services for deposits to permit flexibility. Deposits placed through a deposit placement service shall meet the requirements under Government Code Section 53601.8. When deposits are placed through a deposit placement service the full amount of the principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. The Group will use these fully insured deposits when appropriate.

10. Negotiable certificates of deposit or deposit notes issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated in one of the three highest rating categories (i.e. a rating category of “A” or its equivalent or higher) as provided for by a nationally recognized statistical rating organization.

    The Group’s Board of Directors and the Executive Director or other officials of the Group having legal custody of the Group’s money are prohibited from investing the Group’s funds, or funds in the custody of the Group, in negotiable certificates of deposit issued by a state or federal credit union if a member of the Board of Directors or any person with investment decision making authority in the administrative office manager's office, budget office, auditor-controller's office, or Executive Director's office of the Group also serves on the Board of Directors, or any committee appointed by the Board of Directors, or the credit committee, or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

    Purchase of negotiable certificates of deposit may not exceed 30 percent of the Group's investment portfolio. No more than 5 percent of the Group’s funds may be invested in negotiable certificates of deposit issued or guaranteed by any one issuer.

11. State of California's Local Agency Investment Fund. Investment in LAIF may not exceed the maximum deposit limit allowed by LAIF and should be reviewed periodically.

12. Insured savings account or bank money market account. In accordance with California Government Code Section 53635.2 to be eligible to receive local agency deposits a financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation.

13. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment

Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or 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 managing money market mutual funds and with assets under management in excess of $500,000,000.

The purchase price of shares shall not exceed 15 percent of the investment portfolio of the Group.

14. Any mortgage pass-through security, collateralized mortgage obligation, mortgage- backed or other pay-through bond, equipment lease-back certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of five years maturity. Eligible securities must be rated, by a nationally recognized rating service, in one of the two highest rating categories (i.e. rating category of "AA" or its equivalent or higher), and the issuer of the security must have a rating in one of the third highest rating categories (i.e. rating category of "A" or its equivalent or higher) for its debt as provided by a nationally recognized rating service. No more than 20 percent of the Group's surplus funds may be invested in this type of security.

15. Supranationals, defined as United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter- American Development Bank, with a final maturity not exceeding five years from the trade settlement, and eligible for purchase and sale within the United States. Supranationals shall be rated in one of the two highest rating categories (i.e., rating category of "AA" or its equivalent or higher) by a nationally recognized statistical-rating organization. Purchase of supranationals may not exceed 30 percent of the Group's investment portfolio.

16. Joint Powers Authority. Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in Government Code section 53601, subdivision (a) to (q). 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 issuing the shares 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. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.
    3. The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

Credit criteria listed in this section refers to the credit of the issuing organization at the time the security is purchased. The Group may from time to time be invested in a security whose rating is downgraded. In the event a rating drops below the third highest rating category (i.e. below a rating category of "A"), the Executive Director shall immediately notify the

Executive Committee and will report to the Committee, at their next regularly scheduled meeting, both the downgrade and the action that has been taken.

IX. Ineligible Investments

The Group shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity.

X. Review of Investment Portfolio

The Executive Director shall review investments regularly. If securities are found to be out of compliance, the Executive Committee shall notify the Group's Board and recommend a remedy.

XI. Investment Pools/Mutual Funds

A thorough investigation of pools and funds is required prior to investing, and on a continual basis.

XII. Collateralization

<u>Collateralization will be required on two types of investments: certificates of deposit and repurchase (and reverse repurchase) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest for repurchase agreements. All time deposits must be collateralized in accordance with California Government Code section 53561.</u>

XIII. Diversification

<u>The Group will diversify its investments by security type and institution. With the exception of U.S. Treasury, Agency, supranational and municipal securities, as well as authorized pools, no more than 5% of the Group's total investment portfolio will be invested in a single issuer.</u>

XIV. Maximum Maturity

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the Group to meet all projected obligations.

Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment.

The purchase of U.S. Treasury Instruments, Federal Agency and Instrumentality Securities with maturities in excess of five years is permitted, subject to the following constraints: U.S. Treasury and Federal Agency securities shall have a maximum remaining maturity at time of purchase of ten years or less, and Federal Agency mortgage-backed securities (including pass-throughs and CMOs) shall have a maximum remaining average life of ten years or less. A maximum of 20% of the total portfolio may be invested in securities with maturities in excess of five years.

For all other allowable securities, the maximum maturity will be no more than five years from purchase date to maturity date, unless a shorter maximum maturity has been specified in this policy.

XV. Internal Controls

The Executive Director shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

XVI. 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 Group will measure the portfolio's performance against a market benchmark that is commensurate with the Group's investment risk constraints and the cash flow characteristics of the portfolio.

XVII. Reporting Requirements

The Executive Director shall annually render to the Board a statement of investment policy, which the Board must consider at a public meeting. Any changes to the policy shall also be considered by the Board at a public meeting.

The Executive Director shall render a quarterly investment report to the Board. The report shall include the following information for each individual investment:

- Description of investment instrument
- Issuer name
- Maturity date
- Purchase price
- Par value
- Current market value and the source of the valuation

The quarterly report also shall (i) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a description of any of the Group's funds, investments or programs that are under the management of contracted parties, including lending programs, and (iii) include a statement denoting the ability of the Group to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may not, be available.

This quarterly report shall be submitted within 30 days following receipt from the County

Treasurer's office for the end of the quarter covered by the report.

XVIII. Investment Policy Adoption

The Group's investment policy shall be adopted by resolution of the Group's Board. The policy shall be reviewed annually by the Group's Executive Committee and any modifications made thereto must be approved by the Group's Board.

XIX. Safekeeping and Custody

The assets of the Group shall be secured through the third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. Collateralized securities such as repurchase agreements shall be purchased using the delivery vs. payment procedure.

Glossary

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per entity.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

CONTRA COSTA COUNTY SCHOOLS INSURANCE GROUP

INVESTMENT POLICY

REVISION DATES

Reviewed and Approved by Board: April 21, 1995
Revised and Approved by Board: April 26, 1996
Reviewed and Approved by Board: April 25, 1997
Reviewed and Approved by Board: April 24, 1998
Reviewed and Approved by Board: April 23, 1999
Reviewed and Approved by Board: May 5, 2000
Reviewed and Approved by Board: May 4, 2001
Reviewed and Approved by Board: March 8, 2002
Reviewed and Approved by Executive Committee: March 18, 2004
Reviewed and Approved by Executive Committee: April 14, 2005
Reviewed and Approved by Executive Committee: March 30, 2006
Reviewed and Approved by Executive Committee: March 29, 2007
Reviewed and Approved by Executive Committee: March 13, 2008
Revised and Approved by Executive Committee March 19, 2009
Revised and Approved by the Executive Committee November 19, 2009
Reviewed and Approved by Executive Committee: March 18, 2010
Revised and Approved by Executive Committee: March 24, 2011
Revised and Approved by the Executive Committee: March 22, 2012
Revised and Approved by the Executive Committee: March 21, 2013
Revised and Approved by the Executive Committee: March 20, 2014
Reviewed and Approved by the Executive Committee: March 19, 2015
Reviewed and Approved by the Executive Committee August 27, 2015
Reviewed and Approved by the Executive Committee March 17, 2016
Reviewed and Approved by the Executive Committee March 16, 2017
Reviewed and Approved by the Executive Committee March 15, 2018
Reviewed and Approved by the Executive Committee June 14, 2018
Reviewed and Approved by the Executive Committee March 28, 2019