

RURAL COUNTY REPRESENTATIVES OF CALIFORNIA

INVESTMENT POLICY

INTRODUCTION

The investment policies and practices of Rural County Representatives of California (RCRC) are based upon state law and other legal requirements.

SCOPE

This policy provides guidelines for and applies to the investment of all RCRC's funds including cash.

GENERAL OBJECTIVES:

The primary objectives of investment activities shall be safety, liquidity and return, in that order of priority:

1. *Safety*

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

RCRC will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in this Investment Policy
- Pre-qualifying and conducting ongoing due diligence of the financial institutions, broker/dealers, intermediaries, and advisers with which RCRC will do business in accordance with this investment policy.
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

RCRC will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting individual security maturity as well as the average maturity of the portfolio in accordance with this policy.

2. *Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

3. *Return*

The investment portfolio shall be 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 investment is of tertiary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken;
- Unanticipated liquidity needs of the portfolio require that the security be sold.

These objectives can be accomplished through diversity of instruments to include those with active secondary markets, maturities that match expected cash needs, and the Local Agency Investment Fund (LAIF) and CalTrust which includes diverse investment portfolios and immediate withdrawal provisions. The investment objective shall be to achieve a rate of return that is commensurate with safety and liquidity requirements of the organization. Management of the Investment portfolio will be directed by the objectives of Preservation of Capital – understanding that losses may occur on individual securities; Risk Aversion - understanding that risk is present in all types of investment; and Adherence to Investment Discipline, adhering to this policy.

Subject to the safety and liquidity priorities set forth above, the portfolio's target total return should meet or exceed all of the following over a full market cycle (at least 5 years):

- California's Local Agency Investment Fund (LAIF) rate for the same period.
- The 90 day Treasury Bill rate for the same period.

Standards of Care

1. *Prudence*

The standard of prudence to be used shall be the "prudent investor" standard, as set forth in government Code section 53600.3, and shall be applied in the context of managing an overall portfolio. The Treasurer and other officers and employees involved in the investment process 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, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

2. *Ethics and Conflicts of Interest*

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Such officers and employees shall disclose any material interests in financial institutions with which RCRC conducts business, and shall further disclose any personal financial/investment positions that could be related to the performance of RCRC's investment portfolio. All such disclosures, and any other legally required disclosures of income, gifts, and other financial interests, shall be made in accordance with the Political Reform Act and other applicable provisions of state law. Employees and officers involved in the investment process shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of RCRC.

Delegation of Authority

Authority to manage RCRC's investment program is derived from California Government Code sections 53600 et seq. and is renewed annually by actions of RCRC's Board of Directors (Board). By adoption of this investment policy, the Board delegates investment authority to the Treasurer in accordance with Government Code section 53607. The Treasurer shall only act in consultation with the President/Chief Executive Officer (CEO) and/or Vice President, as set forth herein. All investments require the approval of the Treasurer and concurrence of either the President/CEO or Vice President, provided that the Treasurer may delegate investment approval authority to the President/CEO and Vice President acting jointly. The Treasurer, in consultation with the President/CEO and Vice President as set forth above, shall be responsible for all investment transactions undertaken and shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer, in consultation with the President/CEO and Vice President as set forth above, shall be responsible for all transactions undertaken and shall establish a system of controls to regulate these activities.

RESPONSIBILITY OF THE INVESTMENT CONSULTANT(S)

In the event the Treasurer determines to utilize an Investment Consultant, the Investment Consultant's role will be that of a non-discretionary advisor to the Treasurer and other officers and employees involved in the investment process. Investment advice concerning the investment management of assets will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement.

LIQUIDITY

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Treasurer will monitor expected net cash flow requirements.

To maintain the ability to deal with unplanned cash requirements that might arise, the Treasurer, in consultation with the President/CEO and Vice President as set forth above, will determine the portion of assets that shall be maintained in cash or cash equivalents, including money market funds or short-term U.S. Treasury bills.

MARKETABILITY OF ASSETS

The Treasurer may require that all assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently, with minimal impact on market price.

AUTHORIZED AND SUITABLE INVESTMENTS

RCRC is empowered to invest in LAIF, CalTRUST and, as provided in Government Code (GC) Section 53600 et seq., to invest in the following types of securities, subject to the limitations upon quality, maturity, and portfolio percentage set forth therein:

1. Specific Authorizations

- Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including RCRC.
- Notes and other securities of RCRC affiliated companies when that note or security meets the requirements of any of the securities listed in GC Section 53601 and this policy, provided that any

such transaction shall be reviewed by counsel to ensure compliance with applicable laws pertaining to conflicts of interest.

2. Cash Equivalents

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States Government
- Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission (“Money Market Funds”)
- Banker’s Acceptances
- Repurchase Agreements
- Certificates of Deposit and other evidences of deposit at financial institutions, subject to any applicable collateralization requirements.

3. Fixed Income Securities

- U.S. Government and Agency Securities that have a liquid market with a readily determinable market value
- Medium-term Corporate Notes
- A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond (“Mortgage Backed Security”)
- Treasury notes or bonds of the State of California or of any of the other 49 states.

4. Mutual Funds

- a. Shares of beneficial interest issued by diversified management companies that invest in securities as allowed in this statement (“Mutual Funds”), regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities

Collateralization:

Where required by governing legislation, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit.

ASSET ALLOCATION

Sections 53601 and 53601.1 of the California Government Code provide legal authorization for investment of funds of local agencies. All investments of RCRC shall conform to the restrictions of those laws and shall be consistent with prudent and conservative investment standards.

1. The Treasurer, in consultation with the President/CEO and Vice President as set forth above, will determine the Aggregate Fund Asset Allocation (allocation) giving consideration to resources, operating needs and economic conditions. The Treasurer will monitor the allocation and take steps to balance the allocation as appropriate.
2. Should an investment percentage-of-portfolio limitation be exceeded due to an incident such as fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses. When no loss is indicated, the Treasurer shall consider rebalancing the portfolio, basing the decision, in part, on the expected length of time the portfolio will be unbalanced.

3. In order to achieve a prudent level of portfolio diversification, the securities of any one company or government agency or particular industry should not be excessive as determined by the Treasurer. The total allocation to treasury bonds and notes may represent up to 100% of the aggregate bond position

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Chief Financial Officer (CFO) will maintain a list of financial institutions authorized to provide investment services. No public deposit shall be made except in a qualified public depository as established by State of California laws.

In addition, a list will also be maintained of approved security broker/dealers selected by factors that will include credit worthiness and may also include other factors, such as FINRA broker check, who are authorized to provide investment services in the State of California. These may include primary dealers or regional dealers

All financial institutions and broker/dealers who desire to be approved for providing investment services must provide the Treasurer with the following:

- Audited financial statements
- Proof of National Association of Security Dealers certification
- Trading resolution
- Proof of State of California registration
- Certification of having read RCRC's investment policy and depository contracts

An annual review of the financial condition and registrations of approved security broker/dealers utilized by RCRC will be conducted by the CFO.

SAFEKEEPING AND CUSTODY

1. Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds.

2. Safekeeping

Securities will be held by an independent third-party custodian selected by the Treasurer as with all securities held in RCRC's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. Internal Controls

The CFO shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of RCRC.

INVESTMENT PERFORMANCE REVIEW AND EVALUATION

The Treasurer shall ensure that performance reports are compiled at least quarterly. The market value of the portfolio shall be calculated and an investment report shall be prepared at least quarterly for presentation to the RCRC Executive Committee. The report shall include the following:

- Listing of individual investments held at the end of the reporting period, showing institution, selling institution, date of maturity, amount of deposit, and current market value
- Realized and unrealized gains or losses resulting from appreciation or depreciation
- Return on investment expressed as an annual percentage rate
- Average weighted yield to maturity of portfolio as compared to applicable benchmarks
- Statement of current allocation of investments

The Investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Treasurer will evaluate the portfolio(s) over at least a three year period.

INVESTMENT POLICY REVIEW

The investment policy shall be reviewed and approved annually by the Board of Directors in accordance with Government Code Section 53646.