# STATEMENT OF POLICY

WHEREAS, the Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (Cal. Gov. Code, §53630.1); and

WHEREAS, the legislative body of a local agency may invest surplus moneys not required for the immediate necessities of the local agency in accordance with the provisions of California Government Code §53600 et seq.; now

THEREFORE be it resolved, that it shall be the policy of the San Mateo County Harbor District to conduct its investments using the prudent investor standard, which provides that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act 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 (Cal. Gov. Code, § 53600 et seq.).

# SCOPE

This investment policy governs all money of the San Mateo County Harbor District. Money that is not required for the immediate needs of the District shall be invested. The District does not currently have debt and therefore does not manage investment of debt proceeds. Prior to the issuance of debt the District shall revise this policy to incorporate methods used for the investment of such proceeds.

# OBJECTIVES

When investing, reinvesting, purchasing, acquiring, exchanging selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

## **Safety**

Safety of principal is the foremost objective of the investment program. The safety and risk associated with an investment refer to the potential loss of principal, interest, or a combination of these amounts. Investments of the San Mateo County Harbor District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Credit risk and interest or market risk shall be minimized. To attain this objective, diversification is required so that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

## **Liquidity**

An adequate percentage of the portfolio will be maintained in liquid short-term investments which can be converted to cash if necessary to meet disbursement requirements. A short-term investment is defined as any investment which matures within a one-year period. The investment portfolio will remain sufficiently liquid to enable the San Mateo County Harbor District to meet all operating requirements, which might be reasonably anticipated.

## **Yield**

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 the cash flow characteristics of the portfolio. Return on investments becomes a consideration only after the basic requirements of safety and liquidity have been met.

## **Public Trust**

The District shall avoid any transactions that might impair public confidence.

## **Social and Policy Considerations**

{The Harbor Commission may add special considerations to this section. As an example, certain agencies have a prohibition against investing in tobacco companies. Example from San Mateo County as follows:

In addition to and while complying with California Government Code provisions that regulate the investment of public funds (which require that, when managing and investing public funds, the objectives shall be, primarily, to safeguard principal of invested funds; secondarily, to meet the liquidity needs of the local government; and third, to achieve a return on invested funds), the County Treasurer recognizes the importance of socially responsible investing. The Treasurer will consider and promote investment in authorized issuers that display adherence to strong environmental, social and governance (ESG) principles, including but not limited to, environmental sustainability, social and economic justice, and good corporate governance. The Treasurer will forego investments in fossil fuel issuers if able to do so while complying with all legal and fiduciary mandates, including with respect to safety of principal, liquidity, and return on invested funds. The Treasurer will seek to invest in a socially responsible manner by considering investments in corporate issuers that meet designated risk score thresholds, as provided by an independent organization or organizations that supply analytical research, ratings, and data to institutional investors regarding issuers’ environmental, social and governance (ESG) practices. Issuers will be reviewed and confirmed against these thresholds on a periodic basis, and any investments in issuers that fall below designated thresholds may be sold or held to maturity. }

# DELEGATION OF AUTHORITY

Authority to manage the investment program is derived from California Government Code ("GOV') §§ 53600, et seq. Management responsibility for the investment program is hereby delegated to the Director of Administrative Services (in consultation with the District Treasurer), who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, , wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Administrative Services. The Director of Administrative Services shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate staff. The Director of Administrative Services is a trustee and a fiduciary subject to the prudent investor standard. (Cal. Gov. Code, § 53600.3)

# ETHICS AND CONFLICTS OF INTEREST

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

# AUTHORIZED FINANCIAL INSTITUTIONS AND BROKERS/DEALERS

The Director of Administrative Services will maintain a list of financial institutions, selected on the basis of credit worthiness, financial strength, experience and minimal capitalization, and that are authorized to provide investment services.

Banks, savings associations, federal associations, or federally insured industrial loan companies shall have received an overall rating of not less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California’s communities, including low- and moderate-income neighborhoods, pursuant to §2906 of Title 12 of the United States Code.

California Government Code §§53601.5 and 53601.6 shall apply to all investments that are acquired. In addition, a list will be maintained of approved security broker/dealers who are authorized to provide investment and financial advisory services in the State of California in accordance with Government Code §53601.5. For brokers/dealers of government securities and other investments, the Director of Administrative Services shall select only broker/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the Director of Administrative Services shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for the San Mateo County Harbor District’s account with that firm has reviewed the San Mateo County Harbor District's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the San Mateo County Harbor District that are appropriate under the terms and conditions of the Investment Policy.

**DEPOSIT OF FUNDS**  
As far as possible, all money belonging to or in the custody of the District including money paid to the District to pay the principal, interest or penalties of bonds, shall be deposited for safekeeping in state or national banks, savings associations or federal associations, state or federal credit unions or federally insured industrial loan companies in California (as defined by Cal. Gov. Code § 53630); or may be invested in the investments set forth in the table below. Under California Government Code §§ 53635, 53637 and 53638, the money shall be deposited in any authorized depository with the objective of realizing maximum return, consistent with prudent financial management.

**INVESTMENTS AUTHORIZED** **UNDER CALIFORNIA GOVERNMENT CODE**

The following table was derived from the California Debt and Investment Advisory Commission -Local Agency Investment Guidelines

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| CGC Section | Investment Type | Maximum Maturity | Authorized Limit (%) | Required Minimum Rating |
| 53601 (a) | Local Agency Bonds | 5 years | None | None |
| 53601 (b) | U.S. Treasury Obligations | 5 years | None | None |
| 53601 (c)53601 (d) | State Obligations-CA and Others | 5 years | None | None |
| 53601 (e) | CA Local Agency Obligations | 5 years | None | None |
| 53601 (f) | U.S. Agency Obligations | 5 years | None | None |
| 53601 (g) | Bankers’ Acceptances | 180 Days | 40% | None |
| 53601 (h)(2)(c) | Commercial Paper- Non-Pooled Funds | 270 Days | 25% of the District’s money | Highest letter and number rating by anNRSRO |
| 53635(a)(1) | Commercial Paper- Pooled Funds | 270 Days | 40% of the District’s money | Highest letter and number rating by an NRSRO |
| 53601 (i) | Negotiable Certificates of Deposit | 5 Years | 30% | None |
| 53630 et seq | Non-Negotiable Certificates of Deposit | 5 Years | None | None |
| 53601.853635.8 | Placement Service Deposits | 5 Years | 50% | None |
| 53601.853635.8 | Placement Service Certificates of Deposit | 5 Years | 50% | None |
| 53601 (i) | Repurchase Agreement | 1 Year | None | None |
| 53601 (j) | Reverse Repurchase Agreements and Securities Lending Agreements | 92 days | 20% of the base value of the portfolio | None |
| 53601(k) | Medium Term Notes | 5 Years | 30% | A |
| 53601 (l)53601.6(b) | Money Market Mutual Funds & Mutual Funds\*\* | 5 Years | 20% | Multiple |
| 53601 (n) | Collateralized Bank Deposits | 5 Years | None | None |
| 53601 (o) | Mortgage Pass-Through Securities and Asset Backed Securities | 5 Years | 20% | AA or its equivalent |
| 16429.1 | Local Agency Investment Fund (LAIF) | N/A | None | None |
| 27133 | County Pooled Investment Funds | N/A | None | None |
| 53601(p) | Joint Powers Authority Pool | N/A | None | Multiple |
| 16340 | Voluntary Investment Program Fund | N/A | None | None |
| 53601(q) | Supranational Obligations | 5 Years | 30% | AA or its equivalent |
| 53601(r), 53635(c)and 57603 | Public Bank Organizations | 5 Years | None | None |

**PROHIBITED INVESTMENTS**

Under the provisions of GOV §§ 53601.6 and 53631.5, the San Mateo County Harbor District shall not invest any funds in inverse floaters, range notes, or mortgage-derived, interest only strips or any security that may result in a zero interest accrual if held to maturity. Investments that are not specifically provided for by this policy are prohibited.

# COLLATERALIZATION

The percentage of collateralization on securities underlying repurchase agreements will adhere to the amount required under GOV § 53601(j) and be valued at 102 percent or greater of the funds borrowed against those securities.

# SAFEKEEPING AND CUSTODY

**Third-Party Safekeeping:**

All securities held by a third-party shall be evidenced by safekeeping receipts.

**Internal Controls:**

Internal controls are designed to ensure that the District is protected from theft, loss, or misuse. The is a control to protect against collusion by separation of duties, the safekeeping of securities and written confirmation of transfers between bank and investment accounts. Refer to District’s Policy 4.6.2 Cash Management Policy for additional details.

**Delivery vs. Payment:**

All security transactions entered into by the San Mateo County Harbor District shall be conducted on delivery-versus-payment on investment transactions. All investment transactions shall be conducted using standard delivery versus payment procedures. In delivery versus payment, the District pays for the securities when they are delivered to the District or the District’s custodian and ensures that the securities are deposited in an eligible financial institution prior to the release of payment.

# GENERAL STRATEGY & DIVERSIFICATION

It is the policy of the San Mateo County Harbor District to diversify its investment portfolio. The San Mateo County Harbor District will diversify its investments to eliminate the risk of loss resulting from over concentration of assets in a specific maturity a specific issuer or a specific date of securities. Diversification strategies shall be determined and revised periodically.

The District participates in the State’s Local Agency Investment Pool and the San Mateo County Investment Pool. Both pools are highly diversified and contain both actively managed investments as well as investments that are expected to be held to maturity. In addition, the Pools are required to comply with California Regulations.

**PORTFOLIO MANAGEMENT ACTIVITES**

**Competitive Bidding**

Investments shall be purchased using a competitive bidding process from a pre-approved list of broker/dealers unless the investment transaction is for new issue securities.

**Reporting**

The Director of Administrative Services shall submit to each member of the governing body a quarterly investment report in accordance with GOV §53646(b). The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds, investments, or programs managed by third party contractors. With respect to all securities held by the local agency, and under the management of an outside party that is not also a local agency or the LAIF, the report must include a current market value as of the date of the report and the source of the valuation.

In the case of funds invested in the San Mateo County Investment Fund, the Local Agency Investment Fund (LAIF), Federal Deposit Insurance Corporation-Insured accounts or county investment pools, current statements from those institutions will satisfy the above reporting requirement. The report will also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the Investment Policy and, (2) the San Mateo County Harbor District will meet its expenditure obligations for the next six months. (Cal. Gov. Code § 53646(b)-(e)). The Director of Administrative Services shall maintain a complete and timely record of all investment transactions.

**GASB Statement 31- Marking to Market**

The Investment Portfolio is the be marked to market on a timely basis quarterly as part of the reporting of the quarterly investment report.

**Calculation of Yield and Costs**

The yields and costs of a portfolio shall be measured in comparable ways.

The San Mateo County Pool Yield is calculated on an accrual basis using a 365-day calendar year. Earnings are calculated as follows:

(Earnings\* + Capital Gains) less (Fees+Amortized Premiums + Capital Losses)

Average Daily Pool Balance

\* Earnings equal net interest payments + accrued interest + accreted discounts.

# INVESTMENT POLICY ADOPTION/MODIFICATION

The Investment Policy was formally adopted by resolution 12-96 on June 5, 1996 The Policy shall be reviewed on an annual basis, and any modifications necessary must be approved by the San Mateo County Harbor District Board of Harbor Commissioners. Legislative changes shall be incorporated if relevant and shall specify the California Government Code sections that have been added, deleted or amended.