

SESSION FOUR

Investment Policy and Objectives



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Session Overview

- Identify resources
- Explain the importance of having an investment policy
- Review investment objectives
- Identify best practices for developing your investment policy
- Review legislative changes
- Summarize the CMTA Certification Process
- Identify common IPS mistakes
- Review IPS structure & other considerations

Resources



CA Government Code, CDIAC, and CMTA

CA Code
53600 et al

CDIAC

CMTA

Local Agency
Investment Guidelines
LAIG
53600 see p. 72
(PDF starts on p. 77)

Investment Policy
Certification
CMTA Program &
Application

Investment Policy Statement (IPS)



- Purpose
- Objectives
- Importance
- Who cares?
- Key elements for best practices

Investment Policy Statement

- The purpose of your Investment Policy Statement is to establish guidelines for the individual(s) who is (are) responsible for the public agency's Investment Program.
- The Investment Policy identifies those investments authorized for a particular local agency within the legal parameters outlined in the CA Government Code.
- It is intended to be a roadmap for the prudent investor in managing the Investment Program towards the desired results within a legal framework.

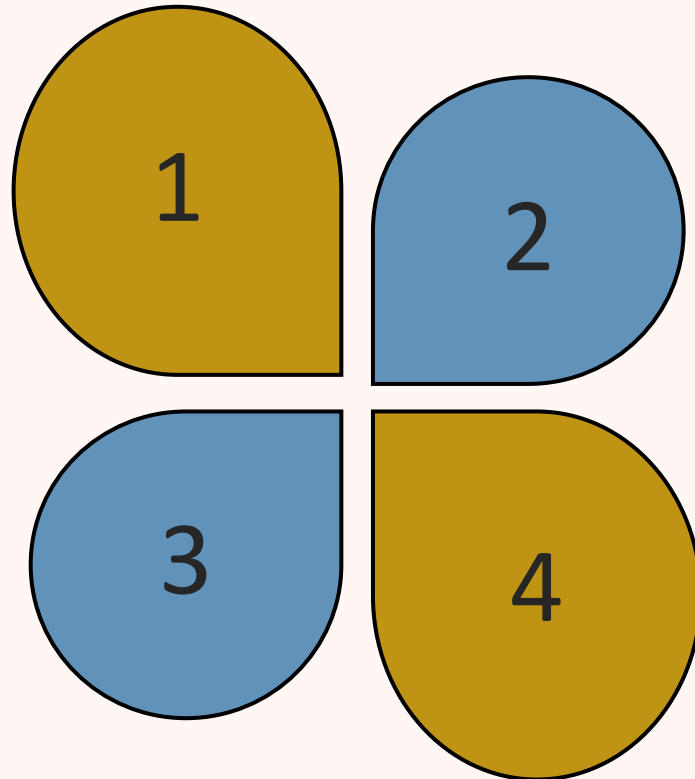
Primary Investment Objectives

- **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- **Liquidity:** The investment portfolio shall be structured with sufficient liquidity to timely meet expected cash outflow needs and associated obligations which might be reasonably anticipated. This objective shall be achieved by matching maturities and cash flow needs.
- **Return on Investments:** The investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. These measurements should be commensurate with the investment risk constraints identified in the Investment Policy and the cash flow characteristics of the portfolio.

Investment Policy Importance

Defines whether your investment policy statement (IPS) is more restrictive than CA Code or matches the minimum standards set forth by code requirements

Demonstrates a commitment to the fiduciary care of public funds



Identifies investment objectives, risk tolerance and constraints on the investment portfolio

Facilitates decision making with emphasis on safety, liquidity, and return on investment

Your IPS is Important to...

- **Board/Council**

- Gives them tools to oversee public funds responsibility, manage risk, plan, and protect the agencies and their reputation.

- **Constituents**

- Ensures decisions are based on public interest, not personal or political gain.

- **Auditors**

- Gives auditors a roadmap to verify funds are being invested legally, safely, and transparently—protecting the agency and the public trust.

- **Capital Markets** (issuing, buying/selling)

- Creates confidence, stability, and efficiency in the capital markets.

- **Rating Agencies**

- Makes your agency look safer and more reliable to rating agencies, which can earn a better credit rating, lower borrowing costs, and maintain a strong reputation in the financial world.

CMTA Best Practices

18 Areas for Policy Certification

- Scope
- Prudence
- Objective
- Delegation of Authority
- Ethics and Conflicts of Interest
- Authorized Financial Dealers & Institutions
- Authorized & Suitable Investments
- Review of Investment Portfolio
- Investment Pools/Mutual Funds
- Collateralization
- Safekeeping and Custody
- Diversification
- Maximum Maturities
- Internal Control
- Performance Standards
- Reporting
- Investment Policy Adoption
- Glossary

Latest on Measuring Performance

- **Benchmark:** Oxford definition: 1. a standard or point of reference against which things *may be* compared or assessed
- **Qualitative vs. Quantitative/Total Return Index Benchmarking** for Public Treasuries and Local Government Investment Pools
- *****Think twice** about adding a total return index benchmark to your IPS (ICE BAML 1-3 Treasury Index, Bloomberg US Intermediate Aggregate Bond Index, etc.
- Logistics and Audit Considerations.....

Latest on Measuring Performance (cont. 2 of 3)

- **GFOA SAMPLE LANGUAGE:** The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio.
- **Really??????**

Latest on Measuring Performance (cont. 3 of 3)



Qualitative Benchmarking:

*“The investment portfolio has been managed in accordance with the **Prudent Investor Standard**, ensuring compliance with all fiduciary obligations and investment policy constraints. The portfolio’s performance has been evaluated based on suitability metrics, including safety, liquidity, income stability, and policy adherence. Returns have been achieved within the framework of prudent risk management, ensuring alignment with statutory requirements and long-term fund objectives. The portfolio’s structure and decisions reflect a commitment to responsible stewardship, balancing risk and return in a manner consistent with fiduciary duty.”*

Beyond a 5yr Final – Which Investments Apply

- **53601.** 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.
- Below are the sections that DO NOT specify a limitation on the term or remaining maturity at the time of investment:
 - (a) Bonds issued by the local agency
 - (b) United States Treasury notes
 - (c) Registered state warrants or treasury notes or bonds of this state...
 - (d) Registered treasury notes or bonds of any of the other 49 states...
 - (e) Bonds, notes, warrants, or other evidence of indebtedness of a local agency...
 - (f) Federal agency or United States government-sponsored enterprise obligations...
 - (i) Negotiable certificates of deposit (NCDs)
 - (n) Notes, bonds, or other obligations that are at all times secured by a valid priority security interest...listed by Sec. 53651
 - (o) A mortgage passthrough, collateralized mortgage obligation...(GOVT)
 - (r) Commercial paper, debt securities, or other obligations of a public bank, as defined in Section 57600.

Guaranteed Investment Contract (GIC) – NOT the same as an Annuity

- GIC – An investment instrument acknowledging receipt of funds for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid
- Government Code [6590.2](#) authorized the use of guaranteed investment contracts (GICs) when purchased with proceeds of bonds, with required competitive bidding.
- In 2025, several of the CMTA IPS evaluators saw several Investment Policy statements authorizing annuities as an authorized investment.
- An annuity is a life insurance contract that is designed to provide income. It must be tied to a human life, whether the contract is owner or annuitant driven.

Legislative Changes and IPS Adoption

- Keep abreast of the regulatory and statutory change process—So you can add to your IPS ASAP.
- Keep an ongoing list of potential IPS changes that you would like to make when legislation becomes law.
- Consider IPS changes when needed, instead of just once per year.
- Get involved in the legislative process!!
- For California Agencies, make sure that you have a copy of CDIAC's updated *Local Agency Investment Guidelines*! It includes a summary of the most recent applicable legislative changes!

Legislative Changes What's New for 2026?

- SB 858 – Commercial Paper Tenor Extension from 270 – 397 Days
- SB 595 – Extend Sunsets from SB 998 (2021)
- SB 827 – New Training Requirements
- SB 852 – New Form 700 Reporting Requirements
- Current Proposals Under Consideration

History Behind the New Changes

- SEC Qualified Institutional Buyer and Accredited Investor Reform for Local Governments – August of 2020
- SB 998 Effective January 2021

Accredited Investor and QIB Changes Allowing Public Agency Participation



- Accredited Investor: Entities Satisfying a \$5 Million “Investments-Owned” Test – A new catch-all category for entities that own more than **\$5 million of investments** (as defined under the 1940 Act). This category is specifically intended to capture all new and existing entity types not already contemplated by the accredited investor definition (including, among others, Indian tribes, **governmental bodies**, and entities formed under foreign jurisdictions).
- Qualified Institutional Buyer: an investor must own and invest on a discretionary basis **\$100 million in securities** of unaffiliated issuers and be one of several types of entities listed in the rule. The amendments conform the types of eligible entities to those under Rule 144A. The SEC indicated in the Adopting Release that this last category will synchronize the definition with the new accredited investor category for entities having more than \$5 million of investments, as well as new types of institutional accredited investors.

SB 998 Moorlach (Chaptered Jan 1, 2021)

- Specifies that local agencies, other than counties or a city and county, which have \$100 million or more of investment assets under management may invest no more than 40% of their moneys in eligible commercial paper. (Subject to sunset Jan 1, 2026)
- Provides that a local agency, other than a county or a city and county, may invest no more than 10% of its total investment assets in commercial paper and the medium-term notes of any single issuer.
- Authorizes a local agency to invest in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. Authorizes a local agency to hold these instruments until their maturity dates. (Subject to sunset Jan 1, 2026)
- Allowed Federally recognized Indian Tribes and other joint powers authorities to participate in JPA Investment pools.

SB 858 Omnibus Package (Chaptered)

- Chapter 242, Statutes of 2025 (SB 858) amends Gov. Code 53601(h) to increase the maximum maturity for prime quality commercial paper from 270 days to up to 397 days.
- Note: This change allows purchases of 4(a)(2) & 144A private placement Commercial Paper beyond the 270-day limit imposed by the 3(a)3 exemption.

SB 595 Choi (Chaptered)

- Chapter 323, Statutes of 2025 (SB 595) amends Government Code (Gov. Code) section 53601(h) to address the investment of local agency surplus funds. The bill extends the authority for local agencies that have \$100,000,000 or more of investment assets under management, to invest no more than 40% of their money in eligible commercial paper until January 1, 2031. SB 595 also amends Gov. Code section 53601.6 to extend a local agency's authority to invest in securities issued by, or backed by, the United States government that could result in zero-interest accrual if held to maturity, to January 1, 2031.
- **SB 595 also makes the change, concurrent and conforming with the amendments to Gov. Code 53601(h) made by SB 858, to permanently increase the maximum allowable maturity for prime quality commercial paper from 270 days to up to 397 days, up to and after the January 1, 2031 sunset date established under SB 595.**
- Finally, SB 595 amends Gov. Code section 53895 to revise the requirements for local agency financial transactions reports to the State Controller by imposing penalties if the required reports are not filed within 10 months after the end of the fiscal year or by the State Controller's deadline, whichever is later.

SB 827 Gonzalez (Chaptered)

New Training Requirements:

- Chapter 661, Statutes of 2025 (SB 827) expands training requirements for local agency officials in California by updating ethics training mandates and introducing a new fiscal and financial training component. Ethics training must now be completed within **six months** of starting service (previously one year). Public agencies must maintain and publicly disclose training records for at least five years, with instructions on how to request training records posted on their website beginning July 1, 2026.
- In addition, SB 827 establishes a biennial two-hour fiscal and financial training requirement for officials of cities, counties and special districts including members of the legislative body, elected officers, appointed officials with financial responsibilities and **other agency executives**. The training specified in the bill covers a wide variety of fiscal and financial topics including capital financing and debt management, pensions and other postemployment benefits, cash management and investments, the prudent investor standard, the ethics of safeguarding public resources, municipal budgets and budget processes, and financial reporting and auditing. Agencies may partner with recognized experts to deliver the training in person or online and must offer it annually.

SB 827 Gonzalez (Chaptered)

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- For purposes of this article, the following definitions apply:

(c) “Local agency official” means any of the following:

(1) A member of a local agency legislative body or an elected officer of a local agency who receives any type of compensation, salary, or stipend or reimbursement for actual and necessary expenses incurred in the performance of official duties.

(2) A department head or other similar administrative officer of a local agency.

(A) For a local educational agency, a “department head or other similar administrative officer” means the superintendent of a school district, the county superintendent of schools, or the chief administrator of a charter school.

(B) For purposes of subparagraph (A), a “local educational agency” means a school district, county office of education, or charter school.

(3) An employee designated by a local agency governing body to receive the training specified under this article.

SB 852 – Committee on Elections and Constitutional Amendments



New Reporting Requirements:

- Adds public officials who manage public investments to those who must file Statements of Economic Interest (Form 700) **electronically** through the Fair Political Practice Commission's **E-filing system**.
- **87500.**
- (a)(1) A statement of economic interests filed by a public official, for whom the Commission is the filing officer, shall be filed with the Commission using the Commission's electronic filing system.
 - (o) **A public official who manages public investments.**

Legislative Proposals in the Works for 2027

- FHLB LOC Expanded from San Francisco only to all FHLB Districts
- Adding IDB Invest as a qualified issuer under 53601(q)
- Federally Licensed or Chartered Foreign Bank CP

IPS Creation, Certification and Considerations

- Authorized investments per code
- CMTA certification process
- Mistakes & misunderstandings
- IPS structure & other considerations

List of CA Authorized Investments

1. Local Agency Bonds
2. U.S. Treasury Obligations
3. State Obligations-CA & others
4. CA Local Agency Obligations
5. U.S. Agency Obligations
6. Bankers' Acceptances
7. Commercial Paper-Non-Pooled <100million
8. Commercial Paper-Non-Pooled =/>100million
9. Commercial Paper-Pooled
10. Negotiable Certificates of Deposit
11. Non-negotiable Certificates of Deposit
12. Placement Service Deposits
13. Placement Service Certificates of Deposit
14. Repurchase Agreements
15. Reverse Repo Agreements & Securities Lending
16. Medium Term Notes
17. Mutual Funds & Money Market Mutual Funds
18. Collateralized Bank Deposits
19. Mortgage Pass-Through & Asset-Backed Securities
20. County Pooled Investment Funds
21. Joint Powers Authority Pools
22. Local Agency Investment Fund (LAIF)
23. Voluntary Investment Program
24. Supranational Obligations
25. Options/Futures

CMTA Certification Process



- Independent certification reinforces to your board/council, auditors, constituents, capital markets and rating agencies that you've taken steps towards a sound, quality investment policy.
- [CMTA's Investment Policy Certification](#) will provide you with a run-down of the process. **CMTA's Investment Policy Certification Program and Application Process was developed by CMTA with support from CDIAC.**
- [The CMTA Certification Program and Application](#) takes you step by step through the application process.
- [The Sample Investment Policy](#) is your “open book” to best practices, presentation, and minimum points the committee is looking for to certify your investment policy.
- Reviewed by Committee members that have extensive public finance experience
- Certification fee is nominal : \$175 for a participating CMTA member or \$270 for a non-member (which includes a new membership to CMTA). The turn-around time is 6 weeks or sooner; must meet criteria with a score of 85 or above. You can re-submit for no additional charge if done within 90 days of notification.

Common Mistakes for CMTA Investment Policy Statement (IPS) Certification

- Cut and paste, or combine code sections
- Misunderstanding of reporting requirements ([53607](#) & [53646](#))
- Unclear language
- Missing sections
- Not following the [CMTA Sample Investment Policy](#) for certification

Treasury Oversight Committee

- GC Sections [27131](#) and 27132 through 27132.4 consider the formation, composition, and role of a county treasury oversight committee. These code sections provide that the function of the treasury oversight committee is to monitor and review the county investment policy by conducting or causing an annual audit and discussing its findings at a public meeting. The rationale behind the creation of an oversight committee is to give local agencies and private sector citizens a say in the policies governing the investment pool. (See [LAIG](#) Chapter IV)

IPS and Rating Agencies

- If your treasury pool is rated, it is advisable to ask your rating agency to review any proposed IPS changes. Good communication is very important.
- Rating Agencies will not officially “approve” your IPS.
- Rating Agencies will “review” your IPS and opine as to whether your limits are consistent with specific ratings criteria.
- Rating Agencies do consider your IPS when rating your treasury pool/fund.

SAN BERNARDINO COUNTY INVESTMENT POLICY

**OFFICE OF THE AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR
(SCHEDULE I)**

AUTHORIZED INVESTMENTS	DIVERSIFICATION	PURCHASE RESTRICTIONS		MATURITY (not to exceed)	MINIMUM ALLOWABLE CREDIT QUALITY (S&P/MOODY'S/FITCH)
United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the U. S. are pledged for the payment of principal and interest 53601(b)	100%	None		5 years and 6 months	Not Applicable
Notes, participations or obligations issued or fully guaranteed as to principal and interest by an agency of the Federal Government or U.S. government-sponsored enterprises 53601(f)	100%	Senior debt only (Max 10% of portfolio in new issue agency par callable securities)		5 years and 6 months for senior unsecured debt 7 years and 3 months (for agency mortgage-backed securities only)	Not Applicable
Notes, participations or obligations issued or fully guaranteed as to principal and interest by the International Bank for Reconstruction and Development, the International Finance Corporation, and/or the Inter-American Development Bank 53601(g)	30%	US Dollar denominated Senior Unsecured debt only		5 years	AA by at least one rating agency*
Bonds, notes, warrants or certificates of indebtedness issued by agencies of and/or within San Bernardino County 53601(e)	10%	With approval of Treasurer		5 years	AAA by at least 2 of the 3 rating agencies*
Commercial paper of U.S. Corps with total assets in excess of \$500 MM 53635(a)(1)	40% total for all Commercial Paper	Max 5% of portfolio by any one issuer, subject to 5% overall corporate issuer limit		270 Days	Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 (if rated)*

Big Mistakes to Avoid in PRACTICE

- Having language in your IPS that forces you to take a realized loss
- Being too restrictive/inflexible to respond to market conditions and changes
- Failing to review every code reference in your IPS and update with new legislative changes on an annual basis (sunset provisions, code nomenclature changes, new code sections, etc.)

Language on Losses



AUTHORIZED INVESTMENTS:

- Investments shall be restricted to those authorized in the California Government Code and as further restricted by this policy statement, with the exception of certain bond funds in which the Board of Supervisors has specifically authorized other allowable investments. All investments shall be further governed by the restrictions shown in Schedule I, which defines the type of investments authorized, maturity limitations, portfolio diversification (maximum percent of portfolio), credit quality standards, and purchase restrictions that apply.
- Whenever a maximum allowable percentage of the portfolio is stated for any type of security as detailed above, the maximum allowable limit is determined by the portfolio size at the market close of the regular business day prior to the security purchase date. **Maximum limits are applicable at the time of security purchase only unless otherwise noted or defined in Schedule I.**

Language on Losses

MITIGATING MARKET & CREDIT RISKS:

- Safety of principal is the primary objective of the portfolio. Each investment transaction shall seek to minimize the County's exposure to market and credit risks by giving careful and ongoing attention to the credit ratings issued by Standard & Poor's, Moody's and/or Fitch rating services on the credit worthiness of each issuer of securities, by limiting the duration of investments to the time frames noted in Schedule I, and by maintaining the diversification and liquidity standards expressed within this policy.
- **In the event of a downgrade of a security held in the portfolio, the Investment Officer shall report the downgrade to the Treasurer promptly. In the event of a downgrade below the minimum credit ratings authorized by this policy, the security shall be evaluated to determine whether the security shall be sold or held. It is preferred to sell such a security if there is no book loss.**
- **In the event of a potential loss upon sale, the Treasurer will evaluate whether to hold or sell the security based on the amount of loss, remaining maturity and any other relevant factors.**

Language on Losses

TRADING & EARLY SALE OF SECURITIES:

- Securities should be purchased with the intent of holding them until maturity. However, in an effort to minimize market risks, credit risks, and increase the total return of the portfolio, securities may be sold prior to maturity, either at a profit or loss, when market conditions or a deterioration in credit worthiness of the issuer warrant a sale of the securities to either enhance overall portfolio yield or to minimize loss of investment principal.
- In measuring a profit or loss, the sale proceeds shall be compared to the original cost as per the County's books of the security plus accrued interest earned and/or any accretion or amortization of principal on the security from the date of purchase or the last coupon date to the date of sale. However, the sale of a security at a loss can only be made with the approval of the County Treasurer or his designee.

Language on Large, Unexpected or Unmanageable Withdrawals

WITHDRAWAL OF FUNDS:

- Any depositor or public official having funds on deposit, either voluntarily or involuntarily, with this pool, that seeks to withdraw these funds for the purpose of investing or depositing them outside the Treasury Pool, shall first submit a request for withdrawal to the Treasurer for approval prior to withdrawing funds. The request should be submitted and processed as follows:
 - In writing, from the governing authority of the funds being withdrawn. The request should state the amount, date of transfer, where investment and/or deposit is/are to be made, and the reason for the request.
 - The request must be received by the County Treasurer no less than thirty (30) days prior to the requested date of withdrawal.
 - Prior to approving a withdrawal, the County Treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the County Treasury pool, in accordance with California Government Code Section 27136(b).

Other Considerations for your IPS



- Special Attachments for convenience
- Reverse Repo and Securities Lending
- Collateralized Certificates of Deposit (CDs)
- Broker/Dealer Selection Criteria
- Voluntary Deposits/Withdrawals

Special Attachment to your IPS (Example)

POLICY STATEMENT ON REVERSE REPURCHASE AGREEMENTS AND SECURITIES LENDING AGREEMENTS

The Treasurer hereby institutes the following policies as further safeguards governing investments in Reverse Repurchase Agreements and Securities Lending Agreements:

1. The total of Reverse Repurchase Agreement and Securities Lending Agreement transactions shall not exceed 10 percent of the base value of the portfolio.
2. The term of such agreements shall not exceed 92 calendar days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using such an agreement and the final maturity date of the same security.
3. All loaned securities subject to Reverse Repurchase Agreements or Securities Lending Agreements shall be properly flagged and immediately accounted for in the Treasurer's financial system.
4. Investments purchased from the loaned proceeds of the Reverse Repurchase Agreement shall have maturities not exceeding the due date for repayment of the Reverse Repurchase Agreement transaction.
5. Only U.S. Treasury Notes and Federal Agency securities owned, fully paid for, and held in the Treasurer's portfolio for a minimum of 30 days can be subject to Reverse Repurchase Agreement and Securities Lending Agreement transactions.
6. Reverse Repurchase Agreements and Securities Lending Agreements shall only be placed on portfolio securities that are intended to be held to maturity, have been fully paid for, and have been held in the portfolio for a minimum of 30 days.
7. Reverse Repurchase Agreements and Securities Lending Agreements shall only be made with primary dealers of the Federal Reserve Bank of New York.
8. A contractual agreement must be in place prior to entering into a Reverse Repurchase Agreement or Securities Lending Agreement with any authorized primary dealer.
9. Reverse Repurchase Agreement and Securities Lending Agreement transactions shall have the approval of the County Treasurer.

Resources

- California Legislative Information Website: <https://leginfo.legislature.ca.gov/faces/home.xhtml>
- *Local Agency Investment Guidelines*: <https://www.treasurer.ca.gov/cdiac/>
- *CDIAC Debt Line*: <https://www.treasurer.ca.gov/cdiac/>
- Jake Stroud, Asst. Treasurer-Tax Collector, County of Monterey & CMTA
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Disclosures

- **INTENDED FOR INSTITUTIONAL INVESTORS ONLY.** The information provided herein is for informational purposes only and should not be construed as a recommendation of any security, strategy or investment product, nor as an offer or solicitation for the purchase or sale of any financial instrument. Any information or data used in presentation was obtained from sources we believe to be reliable, but we do not guarantee its accuracy. This presentation contains the current opinions of the author, which are subject to change without notice. Any statements concerning financial market trends or future forecasts are based on current market conditions, which will fluctuate. Past performance is not Indicative of future results. Member FINRA/SIPC.
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QUESTIONS?



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