



# County of San Mateo

## Inter-Departmental Correspondence

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**Department:** TREASURER

**File #:** 19-982

Board Meeting Date: 10/8/2019

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**Special Notice / Hearing:** None  
**Vote Required:** Majority

**To:** Honorable Board of Supervisors  
**From:** Sandie Arnott, Treasurer-Tax Collector  
**Subject:** Approving the updated 2019 San Mateo County Investment Policy Statement

**RECOMMENDATION:**

Adopt a resolution approving the updated 2019 San Mateo County Investment Policy Statement.

**BACKGROUND:**

Pursuant to Government Code § 53646, the Treasurer may annually render to the Board of Supervisors and any Oversight Committee, a statement of investment policy, which the Board shall review and approve at a public meeting. The Treasurer has revised the Investment Policy Statement that was approved by the Board of Supervisors on June 4, 2019.

**DISCUSSION:**

The bases for the changes to the Investment Policy are outlined in the memo from PFM which is attached to this board item. The Treasurer and staff met with PFM to review and discuss the agreed-upon changes. The updated 2019 Investment Policy includes the following changes:

**Page 3, Section VII. Authorized Investments**

**Original Statement:** Long-term credit ratings, where shown, specify the minimum credit rating category required at time of purchase without regard to modifiers (e.g. +/- or 1,2,3) if any.

**Proposed Change:** Long-term credit ratings, where shown, specify the minimum credit rating category required at time of purchase.

**Page 4, Section VII. Authorized Investments, Section C. Commercial Paper**

**Original Statement:** At the time of purchase, commercial paper must be rated either A-1/P-1/F1 or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch) and a long term rating of single A or better when applicable. Eligibility is limited to U.S. organized and operating corporations. Corporations must have assets in excess of \$5 Billion and have an A rating or better on the issuer's debt other than commercial paper by at least two of the three nationally recognized rating services. Maturities may not exceed 270 days. Purchases of commercial paper will not exceed 40% of the pool's investable money.

**Proposed Change:** At the time of purchase, commercial paper must be rated either A-1/P-1/F1 or

better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch). Eligibility is limited to U.S. organized and operating corporations. Corporations must have assets in excess of \$5 Billion and have debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch). Maturities may not exceed 270 days. Purchases of commercial paper will not exceed 40% of the pool's investable money.

#### **Page 4, Section VII. Authorized Investments, Section D. Negotiable Certificates of Deposit**

**Original Statement:** At the time of purchase, negotiable certificates of deposit must be rated either A-1/P-1/F1 or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch) and a long term rating of single A or better when applicable.

**Proposed Change:** At the time of purchase, negotiable certificates of deposit must be rated in a rating category of "A," long-term, or "A-1"/"P-1"/"F1, short-term," or their equivalents or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch).

#### **Page 5, Section VII. Authorized Investments, Section E. Bankers Acceptance**

**Original Statement:** At the time of purchase, BAs must be rated A-1/P-1/F1 or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch) and a long term rating of single A or better if applicable.

**Proposed Change:** At the time of purchase, BAs must be rated A-1/P-1/F1 or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch).

#### **Page 5, Section VII. Authorized Investments, Section G. Mortgage Backed Securities and Asset Backed Securities**

##### **Original Statement: A. Mortgage Backed Securities**

The issuer of these securities must be rated "A" or higher and the issue itself must be rated "AA" or higher by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch).

**Proposed Change:** The securities must be rated in a rating category of "AA" or its equivalent or higher by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch).

##### **Original Statement: B. Asset Backed Securities**

The issuer of these securities must be rated "AAA" by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch).

**Proposed Change:** The securities must be rated "AAA" or its equivalent by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch).

#### **Page 6, Section VII. Authorized Investments, Section H. Corporate Securities**

**Original Statement:** Purchases of Corporate Securities shall not exceed 30% of the pool. At the time of purchase a maximum of 25% of the entire core position of 30% can be rated single A by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch). The remaining 75% must be AA rated or higher. For purposes of determining compliance with this requirement, a security's rating will be determined by its highest rating by either S&P, Moody's, or Fitch. There is a 5% limitation of the fund in any single issuer of Money Market/Corporate Securities, however, the Pool has a target of holding no more than 3%. The 3% target may be exceeded under exceptional circumstances. (i.e.: peak tax collection periods, G.O. Bond issuances, etc.) when there is a large influx of cash.

**Proposed Change:** Purchases of Corporate Securities shall not exceed 30% of the pool. The amount invested in corporate securities in the "A" rating category may not exceed 27% of the pool (90% of the 30% permitted corporate allocation). For purposes of determining compliance with this requirement, a security's rating will be determined by its highest rating by either S&P, Moody's, or

Fitch. There is a 5% limitation of the fund in any single issuer of Money Market/Corporate Securities, however, the Pool has a target of holding no more than 3%. The 3% target may be exceeded under exceptional circumstances. (i.e.: peak tax collection periods, G.O. Bond issuances, etc.) when there is a large influx of cash.

**Page 7, Section VII. Authorized Investments, Section M. Mutual Funds**

**Original Statement:** Purchases of Mutual Funds will not exceed 10% of the pool.

**Proposed Change:** Purchases of Mutual Funds will not exceed 20% of the pool, 10% per mutual fund.

**Page 7, Section VII. Authorized Investments, Section N. Local Government Investment Pools (LGIPs)**

**Original Statement:** Purchases are limited to LGIPs that seek to maintain a stable share price and will not exceed 10% of the pool, 5% aggregate.

**Proposed Change:** Purchases are limited to LGIPs that seek to maintain a stable share price and will not exceed 20% of the pool, 10% per LGIP.

**Page 10, X. Diversification and Maturity Restrictions**

**Original Statement:**

INSTRUMENT	RATING	% of Fund	LIMITATIONS % of Fund per Issuer	Maturity
U.S. Treasury Obligations		100%	100%	7 years
Obligations of U.S. Agencies or government sponsored enterprises	AA or A-1	100%	40%	7 years
U.S. Agencies Callables	AA		25%	7 years
Commercial paper (two agencies)	A-1/P-1/ F1	40%	5% Aggregate	270 days or less
Negotiable Certificates of Deposit (\$5 billion minimum assets) (two agencies)	A-1/P-1/ F1	30%	5% Aggregate	5 years
Bankers Acceptances *Domestic: (\$5 billion minimum assets) *Foreign: (\$5 billion minimum assets) (two agencies)	A-1 / P-1/ F1	15% 15%	5% Aggregate 5% Aggregate	180 days 180 days
Collateralized Time Deposits within the state of CALIFORNIA	A-1/P-1/ F1	15%	5% Aggregate	1 year
Mortgage Backed Securities/CMO's: No Inverse Floaters No Range Notes No Interest only strips derived from a pool of Mortgages Asset Backed Securities	A (issuer rated) AA (issue rated) AAA	20% Combined total	5% Aggregate 5% Aggregate	5 Years 5 Years

Corporate bonds, Medium Term Notes & Covered Bonds (two agencies)	AA/A A	30% 25% of the 30% above	5% Aggregate	5 years
US Instrumentalities	AA	30%		5 Years
CA Municipal Obligations	AA	30%	5% Aggregate	5 Years
Repurchase Agreements secured by U.S. Treasury or agency obligation (102% collateral)	A-1	100%	See limitations for Treasuries and Agencies above	92 days
Local Agency Investment Fund (LAIF)			Up to the current state limit	
Shares of beneficial interest issued by diversified management companies as defined in Government Code Section § 53601 (Mutual Funds)	Money Market A-1/P-1	10%	5% Aggregate	
Local Government Investment Pools (LGIPs)		10%	5% Aggregate	

**Proposed Change:**

<b>Instrument</b>	<b>Min. Rating Category</b>	<b>% of Fund</b>	<b>Limitations % of Fund per Issuer</b>	<b>Maturity</b>
U.S. Treasury Obligations		100%	100%	7 years
Obligations of U.S. Agencies or government sponsored enterprises	AA or A-1	100%	40%	7 years
U.S. Agencies Callables	AA		25%	7 years
Commercial paper (two agencies)	A-1/P-1/F1	40%	5% Aggregate	270 days or less
Negotiable Certificates of Deposit (\$5 billion minimum assets) (two agencies)	A-1/P-1/F1	30%	5% Aggregate	5 years
Bankers Acceptances *Domestic: (\$5 billion minimum assets) *Foreign: (\$5 billion minimum assets) (two agencies)	A-1 / P-1/ F1	15% 15%	5% Aggregate 5% Aggregate	180 days 180 days
Collateralized Time Deposits within the state of CALIFORNIA	A-1/P-1/ F1	15%	5% Aggregate	1 year

Mortgage Backed Securities/CMO's: No Inverse Floaters No Range Notes No Interest only strips derived from a pool of Mortgages Asset Backed Securities	AA AAA	20% Combined total	5% Aggregate 5% Aggregate	5 Years 5 Years
Corporate bonds, Medium Term Notes & Covered Bonds (two agencies)	A	30% A maximum of 27% may be invested in A rated securities (90% of the 30% allocation)	5% Aggregate	5 years
US Instrumentalities	AA	30%		5 Years
CA Municipal Obligations	AA	30%	5% Aggregate	5 Years
Repurchase Agreements secured by U.S. Treasury or agency obligation (102% collateral)	A-1	100%	See limitations for Treasuries and Agencies above	92 days
Local Agency Investment Fund (LAIF)			Up to the current state limit	
Shares of beneficial interest issued by diversified management companies as defined in Government Code Section § 53601 (Mutual Funds)	Money Market AAAm	20%	10% per mutual fund	
Local Government Investment Pools (LGIPs)		20%	10% per LGIP	

**Page 17, Section XVII. Internal Controls, Section F. External Investment Advisor**

**Original Statement:** F. External Investment Advisor

An external investment advisor will be contracted to conduct independent monthly compliance reviews of the County's portfolio holdings and provide a monthly written report which will:

**Proposed Change:** F. Compliance Review

The County will ensure a monthly compliance review of the County's portfolio holdings and provide a monthly written report which will:

**Page 18, Section XVII. Internal Controls, Section I. Approved Brokers**

**Additional Paragraph:** If the County has contracted with an investment advisor to provide investment services, the investment advisor may use their own list of approved issuers, brokers/dealers and financial institutions to conduct transactions on the County's behalf.

The Treasurer will communicate the updated 2019 Investment Policy Statement to all pool participants and receive their written acknowledgement of the current version of the Investment Policy.

County Counsel has reviewed and approved the Resolution as to form.

Approval of this Resolution contributes to the Shared Vision 2025 outcome of a Collaborative Community by managing the financial assets of the County and maintaining the value of the investment pool through professional and efficient administration of the County Treasury for County departments, special districts, schools, cities and taxpayers.

**FISCAL IMPACT:**

There is no net County cost.