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**Administrative Procedure**  
Chapter 6 – Business & Fiscal Affairs

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## **AP 6320 INVESTMENTS**

### **References:**

Government Code Sections 53600 et seq.

The Vice President, Business Services is responsible for investing the funds of the District that are not required for the immediate needs of the District. Funds so invested shall follow the investment policy approved by the Board of Trustees in accordance with the Government Code Sections cited above and the following:

- Funds that are not required for the immediate needs of the District shall be prudently invested in order to earn a return on such investment.
- The preservation of principal is of primary importance. Each transaction shall seek to ensure that capital losses are avoided, whether from securities or erosion of market value.
- The investment program should remain sufficiently flexible to enable the District to meet all operating requirements that may be reasonably anticipated in any fund. After preservation of principal, liquidity is the objective.
- In managing District investments, District officials should avoid any transactions that might impair public confidence.
- Investments should be made with precision and care, considering the probable safety of the capital as well as the probable income to be derived. (See Government Code Section 53600.6 regarding solvency and creditworthiness.)

District funds maintained by the County Treasurer that are not required for the immediate needs of the District may be invested as follows:

- **County Treasurer's Investment Pool** - Investment of District funds may be delegated to the County Treasurer. In accordance with county procedures, District funds may be pooled with other local agencies and invested by the County Treasurer in accordance with the investment guidelines specified by Government Code Section 53635 and investment policies adopted by the County Board of Supervisors.

- **State's Local Agency Investment Fund** (Government Code Sections 16429.1-16429.3). District funds not required for immediate needs of the District may be remitted to the State Local Agency Investment Fund (LAIF) for the purpose of investment (Government Code Section 16429.1). District funds deposited with the LAIF shall be invested by the State Treasurer in securities prescribed by Government Code Section 16430, or the Surplus Money Investment Fund and as determined by the Local Investment Advisory Board (Government Code Section 16429.2).
- **Other Investments** - Other investments as permitted by Government Code Sections 53600 et seq., and in particular Government Code Sections 53601, 53601.8, 53635, and 53635.8 may be made by Vice President, Business Services subject to prior approval of the Board of Trustees.

The Vice President Business Services or designee is responsible for administering these procedures.

**Authorized investments:** Investments shall be in accordance with law, including but not limited to Government Code Sections 53600 et seq.

**Investment Restrictions and Prohibited Transactions.**

The following types of transactions are restricted or prohibited:

- A. Borrowing for investment purposes (“leverage”) is prohibited.
- B. Reverse Repurchase Agreements, as defined by Government Code Sections 53601 subdivision (i) and 53636 subdivision (i) or otherwise are prohibited.
- C. The District shall not invest in instruments known as Structured Notes (e.g. inverse floaters, range notes, mortgage-derived, interest-only strips, leveraged floaters, structured certificate, or deposit, equity-linked securities) or any security that could result in zero interest accrual if held to maturity. Investment in any instrument which is commonly considered a “derivative” instrument (e.g. options, futures, swaps, caps, floors, collars) is prohibited.
- D. No more than 10% of total assets may be invested in securities of any one issuer with the exception of LAIF, the LACIP or obligations of the U.S. Government and its agencies or instrumentalities.
- E. All investments will be U.S. dollar denominated.
- F. Securities that are downgraded below the minimum acceptable rating levels should be reviewed for possible sale within a reasonable amount of time following a downgrade.

**Diversification:** The District diversifies its investment portfolio. Within each investment style, invested funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

- A. State of California Local Agency Investment Fund (LAIF) - 100%
- B. Los Angeles County Investment Pool (LACIP) - 100%
- C. U.S. Treasuries and securities having principal and interest guaranteed by the U.S. Government - 100%
- D. U.S. Government agencies, instrumentalities and government sponsored enterprises - no more than 50%
- E. Corporate notes - no more than 30%
- F. Asset-backed securities - no more than 20%
- G. Commercial Paper - no more than 25%
- H. Fully insured or collateralized CD's - no more than 30%
- I. Negotiable Certificates of Deposit - no more than 30%
- J. Repurchase Agreements - no more than 50%
- K. Bankers Acceptances - no more than 40%
- L. Money Market Fund - no more than 10%
- M. The Superintendent-President, Vice President, Business Services, or the designated investment advisor shall also be required to diversify maturities, and to the extent possible, will attempt to match investments with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk.

**Authorized Financial Dealers and Institutions:**

- A. The Superintendent-President, Vice President Business Services, or the designated investment advisor may place orders for the execution of transactions with or through such brokers, dealers, banks and

repurchase agreement counterparties as may be selected from an approved list of broker/dealers.

- B. The District or designated investment advisor shall maintain a list of broker/dealers that are authorized to provide investment services to the District. Institutions shall provide their most recent "Consolidated Report of Condition" (call report) at the request of the District. At a minimum, the District or the authorized investment advisor shall conduct an annual evaluation of each institution's credit worthiness to determine whether it should be on the "Qualified Institution" listing.

**Performance Evaluation:**

- A. 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 of the District.
- B. The District shall maintain an active investment strategy. Given this strategy, the basis used by the Vice President Business Services to determine whether market yields are being achieved shall be to identify a comparable benchmark upon establishing the structure of the portfolio.

**Reporting:** The Superintendent-President, Vice President, Business Services, and the designated investment advisor may submit quarterly reports to the Board of Trustees. The quarterly reports shall state compliance of the portfolio to the statement of investment policy or the manner in which the portfolio is not in compliance.

**Safekeeping and Custody:** All funds managed by a designated investment advisor shall be held by a third-party custodian. All security transactions, including collateral for repurchase agreements, entered into by the District shall be conducted on a delivery-versus-payment (DVP) basis. All securities will be held by a third-party custodian except for LAIF, LACIP and money market fund because these securities are not deliverable. The Treasurer shall maintain evidence of delivery. Securities shall be held by a third-party custodian designated by and approved by the Superintendent-President. The third-party custodian shall be required to issue a safekeeping statement to the District listing the specific instrument, rate, maturity and other pertinent information.

**Collateralization:** In order to anticipate market changes and provide a level of additional security for all funds, collateralization shall be required on the following types of investments:

- A. **Repurchase Agreements:** For repurchase agreements, the minimum collateralization level shall be 102% of the market value of principal and accrued interest.

**Bond Proceeds:** The investment of bond proceeds shall be governed by the bond documents relevant to each specific bond issuance and the County Investment Policy

Statement. If the bond documents are silent as to permitted investments, then this policy shall govern the investment of bond proceeds. In such case, Guaranteed Investment Contracts (GICs) shall be deemed permitted investments, solely for the purpose of bond proceeds and shall be limited in the following manner:

- A. Investment agreements with providers with claims-paying, financial strength, or whose obligations are fully guaranteed by a company, rated at least “AA-“ and “Aa3” by S&P and Moody’s, respectively or,
- B. Collateralized investment agreements with providers with claims-paying, financial strength, or whose obligations are fully guaranteed by a company, rated at least “A-“ and “A3” by S&P and Moody’s respectively.

**Retiree Benefits Fund:** The irrevocable Futuris Public Entity Investment Trust will be invested under the direction of the Retirement Board of Authority.

**Quasi-endowments:** The goal is to maximize returns for the risk that the District is willing to bear. The quasi-endowment portfolio will be invested to generate continuous income. Investment portfolio should be a reasonable mix of equity and fixed income investments. The plan of the quasi-endowment is to leave the principal (corpus) intact and spend the investment earnings on the designated program(s). Therefore, the investment approach is a longer-term approach with less emphasis on liquidity than typical District funds.

Also see BP 6320 Investments.

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**Approved:** June 9, 2009

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*(Replaces former LBCC AR 6011)*