



# **SELF-INSURED SCHOOLS OF CALIFORNIA (SISC)**

## **Bond Investment Policy**

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## **1.0 POLICY STATEMENT**

It is the policy of Self-Insured Schools of California (SISC) to invest funds in a manner which will provide maximum security of principal invested. The secondary objective is the liquidity of capital to meet expenditure requirements. The third objective is to achieve a positive return on the funds invested. This policy shall conform to all applicable State statutes governing the investment of public funds. (CA Gov. Code 53601)

## **2.0 SCOPE**

This investment policy applies to all surplus funds not required for the immediate operating need of Self-Insured Schools of California. These funds are accounted for in the monthly financial report and include all or a portion of:

- 9110.00 Kern County Treasurer
- 9150.01 California Local Agency Investment Fund (LAIF)
- 9150.03 Investments

## **3.0 PRUDENCE**

SISC is a Joint Powers Agreement (JPA), comprised of public school districts and county offices that have come together to self-insure various programs. Investment law imposes the role of trustee on California's local government agencies or persons authorized to make investment decisions for them, in effect making them a fiduciary subject to the prudent investor standard (CA Gov. Code 53600.3).

A fiduciary is "a person who has legal responsibility for the conservation and management of property in which another person has a beneficial interest." As a governing body and fiduciary investing public funds, the standard of prudence to be used when investing SISC funds shall be the "Prudent Investor Standard." This Standard states that the fiduciary shall act with care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with those matters, would use in the conduct of funds of a like character and with like aims to safeguard the principal and to maintain the liquidity needs of the agency.

## **4.0 OBJECTIVE**

The primary objectives, in order of priority, of the Self-Insured Schools of California's investment activities shall be:

- 4.1 Safety: Safety of principal is the foremost objective of the investment program. SISC investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- 4.2 Liquidity: SISC's investment portfolio will remain sufficiently liquid to enable SISC to meet all operating requirements which might be reasonably anticipated.
- 4.3 Return on Investment: SISC's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account SISC's investment risk constraints and the cash flow characteristics of the portfolio.

## **5.0 DELEGATION OF AUTHORITY**

The SISC Board is responsible for the management and oversight of the investment program. The SISC Finance Department shall monitor and review all investments for consistency and compliance with this investment policy. The Board may delegate the daily investment decision making execution authority to the Chief Executive Officer or his designee. The Chief Executive Officer shall follow this policy and such other written instructions as provided. Further, he or she shall be responsible for all transactions undertaken and will establish a system of controls to regulate the activities of appropriate staff members.

## **6.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

Investment services may be provided only by institutions and security broker/dealers authorized by SISC. Criteria used to select broker/dealers shall be credit worthiness and verification of authorization to provide investment services in California. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply SISC with the following:

- Annual Audited Financial Statements

- Proof of National Association of Security Dealers Certification
- Proof of California Registration
- Verification of having read SISC's Investment Policy and agreement to comply with said Policy

Where applicable, the broker/dealer will facilitate a competitive pricing approach when purchasing securities. It is also understood that the broker/dealer will adhere to applicable Government Code specifications and stay abreast of Government Code revisions and advise the client in a timely fashion of changes that may affect the investment policy or portfolio assets.

## **7.0 AUTHORIZED & SUITABLE INVESTMENTS**

SISC is empowered by California Government Code 53601 to invest in the following types of securities:

- U.S. Treasury obligations
- Repurchase Agreements
- Bankers' Acceptances
- Medium-Term Notes
- Equipment Lease-Backed Certificates
- California Local Agency Investment Fund
- Obligations of the State of California, its agencies, and local agencies within California
- Shares of beneficial interest issued by diversified management companies
- Insured savings account or money market account
- Federal agency securities
- Certificates of Deposit
- Commercial Paper
- Mortgage Pass-Through Securities
- Consumer Receivable Pass-Through Certificates
- Local Treasury

SISC further reduces its investment risk by establishing a fixed income portfolio restricted to the types of securities listed below. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase.

- U.S. Treasury obligations: 10 year maximum maturity
- Federal agency securities: 10 year maximum maturity
- Corporate Medium-Term Notes, including corporate bonds: 5 year maximum maturity
- Mortgage Pass-Through Securities: 5 year maximum maturity
- Consumer Receivable Pass-Through Certificates (Asset-Backed Securities): 5 year maximum maturity
- Commercial Paper: 270 days maximum maturity
- Bankers' Acceptances: 180 days maximum maturity
- Negotiable Certificates of Deposit (CD): 10 year maximum maturity
- Cash Equivalent Securities

Funds may also be invested with: • California Local Agency Investment Fund • Local Treasury

Additionally, each individual portfolio established by an approved broker/dealer will adhere to the following guidelines:

1. Corporate securities shall be rated at least 'A' by Moody's and 'A' by Standard and Poor's. If a security rating drops below 'A,' the security will be evaluated by the SISC Finance Department for continuance in the portfolio. A report of the downgrade and the course of action taken will be presented to the SISC Board at the next regularly scheduled meeting.
2. No security shall have a stated maturity date in excess of five years, except those investment types approved by the SISC Board for a maximum maturity up to ten years.
3. The portfolio shall be comprised of no more than 30 percent in Medium-Term Notes or corporate bonds, or any combination of the two.
4. The portfolio shall be comprised of no more than 20 percent in Mortgage Pass-Through Securities, or Consumer Receivable Pass-Through Certificates, or any combination of the two.
5. Purchases of eligible Commercial Paper may not exceed 270 days maturity nor represent more than 10 percent of the portfolio.
6. Purchases of Bankers' Acceptances may not exceed 180 days maturity or 40 percent of the portfolio.

- 7. The portfolio shall be comprised of no more than 30 percent in negotiable CDs.
- 8. All assets selected for the portfolio must have a readily available market value and be marketable.

Further, SISC or a SISC approved security broker/dealer shall not invest in derivatives, such as, but not limited to, inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity.

Note: Although funds held in SISC's bank accounts are not considered surplus under this Policy, they are deposited in a Premium Interest Checking account that is fully collateralized at 110%, provides daily liquidity, and earns a competitive rate of interest.

**8.0 SAFEKEEPING AND CUSTODY**

All security transactions entered into by SISC shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the SISC Board and evidenced by safekeeping receipts (CA Gov Code 53635).

**9.0 DIVERSIFICATION**

In an effort to reduce overall portfolio risk while attaining market average rates of return, diversification will be utilized in terms of maturity, as well as security type and issuer. The portfolio will be well diversified to avoid undue exposure to any single economic sector, industry group, or individual security.

**10.0 MAXIMUM MATURITIES**

The SISC Finance Department will match its investments with anticipated cash flow requirements. Furthermore, SISC will not invest in any single security with a stated maturity date in excess of five years, except the security types approved by the SISC Board for a maximum ten year maturity. Further, at any one time no more than 30% of the portfolio shall be invested in securities with maturities up to ten years.

**11.0 INTERNAL CONTROL**

Internal controls shall be utilized to maintain efficiency and prevent fraud. Controls may include, but are not limited to, separation of functions, checks and balances, screening of employees and consultants, and training. The SISC Finance Department shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

**12.0 PERFORMANCE STANDARDS**

The investment portfolio will be designed to obtain a positive market rate of return, taking into account SISC's investment risk constraints and cash flow needs.

12.1 Market Return-On-Investment (Benchmark):

The basis used by the SISC Finance Department to determine whether market returns are being achieved shall be the return for the California Local Agency Investment Fund (LAIF).

**13.0 REPORTING**

The SISC Finance Department is charged with the responsibility of including a market report on investment activity and returns in SISC's Financial Statements. Quarterly Investment Reports will include:

- Type of Investment
- Purchase Date
- Dollar amount invested (cost)
- Security Rating at Current Quarter
- Maturity Date
- Principal Balance (%)
- A description of funds or investments under the management of contracted parties:  
California Local Agency Investment Fund  
Kern County Treasurer
- Issuer
- Par/Face Value
- Security Rating at Purchase
- Yield-to-Maturity at Current Quarter
- Security Reduced by Principal Payments (%)
- Market Value and source of valuation

Further, the Quarterly Report shall verify that the SISC investment portfolio is in compliance with SISC's investment policy. The report will also include a statement indicating the ability of SISC to meet its cash requirements for the ensuing six months or to provide an explanation as to why sufficient money shall not or will not be available. A copy of the Quarterly Report will be rendered to SISC's Chief Executive Officer, the internal auditor, and the Board within 60 days following the end of the quarter (CA Gov. Code 53646).

**14.0 INVESTMENT POLICY ADOPTION**

SISC's Investment Policy shall be adopted by the Board. The Policy will be reviewed on an annual basis by the SISC Finance Department, and any modifications made thereto must be approved by the SISC Board.

**Adopted: January 4, 1989**  
**Revised: September 16, 1992**  
**Revised: September 15, 1993**  
**Revised: June 19, 1996**  
**Revised: October 16, 1996**  
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