Stephanie Levings
Treasurer

INVESTMENT POLICY

Approved by Sierra County Treasury Oversight Committee on August 24, 2005
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Last revision: May 9, 2002
Established: January 1, 1985

SIERRA COUNTY INVESTMENT GUIDELINES

SUMMARY OF INVESTMENT LIMITATIONS

	* Limit Per Institution	* Limit Per Type of Investment	Maximum Allowable Maturity
Treasuries		100%	5 years
Agencies			
Government National Mortgage Assn.		50%	5 years
Federal Farm Credit System		50%	5 years
Federal Home Loan Bank		50%	5 years
Federal Home Loan Mortgage Corporation		50%	5 years
Federal National Mortgage Association		50%	5 years
Medium Term Corporate Notes	10%	30%	5 years
Negotiable Certificates of Deposit	10%	20%	5 years
Time Certificates of Deposits	15%	50%	5 years
Bankers Acceptances ***	15%	40%	180 days
Commercial Paper ***	10%	40%	270 days
Repurchase Agreements			
Less than 30 days	20%	30%	30 days
Greater than 30 days	10%	30%	365 days
Local Agency Investment Fund	100%	100%	** N/A
California Asset Management Program	100%	100%	** N/A
Investment Trust of California	100%	100%	** N/A

No more than 20% of the portfolio, except Treasuries and Agencies, may be invested in the securities of a single issuer including its related entities.

* Based on total funds at the time the investment decision is made.

** One day availability of funds and no maturity date.

*** Amended 5/21/02

U.S. TREASURIES AND AGENCIES

<u>INVESTMENTS</u>: Issues of the U.S. Treasury (treasuries or governments), agencies of the federal government, and the Federal National Mortgage Association (FNMA) shall be authorized as acceptable investments for the Pooled Investment Fund.

<u>REASONS</u>: U.S. Treasury issues are judged to be the safest of all investments. Agencies are typically considered the next safest class of securities available. (The Federal National Mortgage Association is now publicly owned, but the investment world still generally groups it with the agencies. For purposes of this recommendation it will be referred to as an agency.) These securities are also very liquid, marketable, and they offer a wide range of available maturities.

<u>LEGAL AUTHORITY:</u> Government Code §53601 of the authorizes local agencies to purchase all of these securities with no limitations as to the amount that can be owned of each.

<u>CHARACTERISTICS:</u> Agencies of the Federal Government are the Federal Home Loan Bank system (FHLB), the Federal Farm Credit System (FFCS), the Federal Home Loan Mortgage Corporation (FHLMC), and the Government National Mortgage Association (GNMA).

Securities issued by the GNMA are guaranteed by the Federal Government and it is a general belief that the other agencies carry an "implied" guarantee (excluding FNMA).

Along with treasuries, agencies can be issued in discount form for securities with maturities of one year or less, or with coupons if the maturities are greater than one year. Maturities on these issues can be from just a few days to thirty years.

While all of these securities are classified as agencies, there can be perceived differences in quality and consequently, each can trade at a different yield from each other and treasuries. Issues of the GNMA, because of the government guarantee, are considered the safest of the agencies. The market's perception of the relative quality of issues of the FFCS, the FHLB, FHLMC and FNMA can vary with changes in economic and political environments.

<u>GUIDELINES GOVERNING GOVERNMENT AND AGENCY ISSUES:</u> There should be no restrictions on the amount of dollars to be placed in governments at any one time. As a general guide, no more than 50 percent of surplus funds should be in any one agency at any one time.

MEDIUM TERM CORPORATE NOTES

INVESTMENT: Medium-term notes (MTNs) shall be authorized as acceptable investments for the investment portfolio of the Pooled Investment Fund.

REASON: Medium-term notes are a suitable investment for maturity requirements of one to five years. High-quality corporate notes are relatively safe as to principal, reasonably liquid and they can offer attractive yields and a wide range of maturities.

DEFINITION: MTNs are negotiable instruments issued by corporations with maturities of nine months to fifteen years. Most are unsecured, although some are collateralized or carry other credit enhancements such as a letter of credit.

LEGAL AUTHORITY: Government Code §53601 allows public agencies to invest a maximum of 30 percent of surplus funds in MTNs with maturities up to five years. Issuers must be operating within the United States and possess ratings in the top three categories (A or better) by two of the three largest nationally recognized rating services (currently Moody's, Standard and Poor's, and Fitch's Rating Services).

HISTORY: MTNs were initially issued by General Motors Acceptance Corporation (GMAC) in 1972. They have become a more prevalent investment since 1982 when the SEC removed some restrictions that had previously hindered their sale. Currently, there are over 100 issuers of MTNs with outstanding notes of over 35 billion dollars.

CHARACTERISTICS: MTNs are generally issued in minimum amounts of $25,000 or $100,000 and integral amounts of $1,000. Interest is calculated on a 30-day month, 360-day year basis and paid semi-annually on two pre-established dates. Floating rate MTNs can pay interest monthly, quarterly, or semi-annually.

Yields on MTNs will normally exceed those on treasuries with comparable maturities by about 10 to 75 basis points. Levels of interest rates, maturities, the quality of each issue, and supply and demand factors will affect available yields.

GUIDELINES GOVERNING MTNs INVESTMENTS: Only MTNs issued by the most stable corporations shall be eligible for purchase. Eligible issuers must be approved by the County Treasurer or the investment advisor.

Up to 30 percent of surplus funds shall be allowed to be placed in MTNs at any one time. No more than 10 percent of surplus funds should be allowed to be placed in the notes of any one issuer at any one time. In combination with any other debt issued by any one corporation or its holding company (excluding repurchase agreements and commercial paper with maturities of seven days or less), no more than 20 percent of surplus funds should be placed in that corporation at any one time.

SIERRA COUNTY INVESTMENT GUIDELINES

NEGOTIABLE CERTIFICATES OF DEPOSIT

INVESTMENT: Domestic and Yankee negotiable certificates of deposit (CDs) shall be authorized as acceptable investments for the Pooled Investment Fund.

REASONS: CDs have become a desirable investment because they offer a good combination of liquidity, marketability, yield, safety and choice of maturities.

DEFINITION: A CD is a negotiable instrument evidencing a time deposit with a bank at a fixed rate of interest for a fixed period of time. A variation is a variable rate CD that periodically changes the interest rate based upon a predetermined index, usually an average of shorter term CDs or treasury bills. CDs are not collateralized and should be considered an unsecured deposit.

Yankee CDs are issued by foreign bank branches in the United States.

LEGAL AUTHORITY: Government Code §53601 allows public agencies to invest in a maximum of 30 percent of surplus funds in CDs.

HISTORY: New York banks began issuing CDs in 1961 in an effort to attract deposits from the national market. A secondary market was created at the same time. Yankee CDs began trading actively in the late 1970's.

CHARACTERISTICS: CDs are coupon bearing, which on CDs with maturities of one year or less is usually paid at maturity. A small percentage of CDs issued have maturities greater than one year and will normally pay interest on a semiannual basis. The majority of CDs are issued in the 30-90 day range. CDs are normally issued in pieces of $1 million and the normal trading block is $5 million. The odd-lot market is active, but marketability and yield suffer slightly.

Yankee CDs usually trade at a slight yield premium to domestic CDs, and domestics at a premium to treasuries.

GUIDELINES GOVERNING CD INVESTMENTS: Since CDs are an unsecured deposit, only banks of the highest quality shall be eligible for purchase. Eligible banks must have the highest short-term rating available from at least two national rating services and must be approved by the County Treasurer or the investment advisor.

Because CDs are considered lower quality than BAs, they shall represent a smaller percentage of the portfolio than BAs. That limit shall be 20 percent of funds managed, and no more than 10 percent of those funds shall at any one time be in the CDs issued by a single bank. In combination with any other debt issued by any one bank, (excluding repurchase agreements and commercial paper with maturities of seven days or less), no more than 20 percent of managed funds should be placed in that bank at any one time.

TIME CERTIFICATES OF DEPOSIT

INVESTMENT: Time Certificate of Deposit (TCDs) shall be authorized as acceptable investments for the Pooled Investment Fund.

REASONS: TCDs can be attractive investments because they offer competitive yields, a wide range of maturities, and a relatively high degree of safety if they are insured and/or issued by a financial institution of high quality.

DEFINITIONS: A TCD is a non-negotiable instrument evidencing a deposit with a financial institution for a fixed period of time and normally for a fixed rate of interest. TCDs can be collateralized with securities or mortgages or, if issued in denominations of $100,000 or less, they can be insured by the Federal Deposit Insurance Corporation, or other corporations.

LEGAL AUTHORITY: Government Code §53630 allows public agencies to invest in the TCDs of depositories (banks, savings and loan associations, savings associations, savings banks or federally insured loan companies).

HISTORY: Prior to 1975, bank TCDs collateralized with securities were one of the few investments allowed for public agencies. Subsequently, TCDs of other depositories were legalized as investments, the insured portion of TCDs was raised to $100,000, mortgages could be utilized as collateral, and collateral could be waived in lieu of insurance.

CHARACTERISTICS: TCDs purchased by public agencies pay interest at least quarterly. Maturities are typically one year or less. Because they are non-negotiable, they are non-liquid and cannot be sold or redeemed prior to maturity without suffering a loss of interest. TCDs can be written for any amount, but it has become common practice over the past few years to issue TCDs in $100,000 denominations to take advantage of the insurance available on that amount.

TCDs covered by insurance typically yield slightly more than TCDs collateralized. Because of recent financial strains suffered by some financial institutions, yields on TCDs issued by different institutions can vary a great deal depending upon the quality and size of the institution. Normally, yields on TCDs issued by larger, more stable (first-tier) banks will be at a slight premium to treasury yields.

GUIDELINES GOVERNING TCD INVESTMENTS: No more than 15 percent of surplus funds shall be placed in TCDs of any one institution at any one time.
All TCD deposits shall be fully collateralized as provided for in the Government Code.
Waivers of insurance will not be allowed. Eligible banks must have the highest short-term rating available from at least two national rating services.
Interest shall be collected monthly when possible.

TIME CERTIFICATES OF DEPOSIT, cont.

Up to 50 percent of funds being managed may be deposited in TCDs at any one time. Deposits in any one financial institution, in combination with any other debt issued by that institution should equal not more than 20 percent of surplus funds (excluding repos and commercial paper with maturities of seven days or less).

BANKERS' ACCEPTANCES

INVESTMENTS: Domestic and Japanese Bankers' Acceptances shall be authorized as acceptable investments for Pooled Investment Fund.

REASONS: Banker's Acceptances (BA's) are a suitable short-term investment. In addition to providing good yields, they are considered a relatively safe and liquid investment.

DEFINITION: A BA is a time draft drawn on and accepted by a bank for payment of the shipment or storage of merchandise. The initial obligation of payment rests with the drawer, but the bank substitutes its credit standing for that of the borrower and assumes the obligation to pay face value at maturity.

LEGAL AUTHORITY: Government Code § 53635 allows to place up to 40 percent of surplus funds in bankers' acceptances. (Amended 5/21/02)

FOREIGN BA's: During the 1970's foreign banks, and in particular the Japanese agencies, became a competitive force in the U.S., especially in the issuance of BA's. The International Banking Act (IBA) was passed by Congress and signed into law in 1978 to regulate foreign banks. The IBA created a dual state and federal regulatory system. The Fed was authorized to fix reserve requirements for both state and federally licensed agencies of foreign banks. Most states require foreign agencies to maintain assets in an amount not less than 108 percent of the adjusted total liabilities of the agency and to deposit cash or securities with the state equal to five percent of adjusted total liabilities.

HISTORY: A form of BA's was used to finance foreign trade as early as the 12th century and they have been used in the United States for over 100 years. The Federal Reserve allowed national banks to accept time drafts in 1913 to encourage foreign trade and subsequently took action to promote expansion of the BA market. The most dramatic growth of the BA market began in 1974 when the total of BA's outstanding was approximately $10 billion. Annual volume now approaches $100 billion.

CHARACTERISTICS: BA's are issued in bearer form and are a discount instrument. Normal trading blocks are $5 million, but the odd-lot market is active. The majority of BA's are created with a 90-day maturity and rarely extend over 180 days.

BANKERS' ACCEPTANCES, cont.

Due to the high volume of BA's being traded, they are relatively liquid instruments with spreads between the quoted bid and offer typically being between five and ten basis points, but often brokered for as little as two basis points.

Domestic BA's usually will yield 10 to 20 basis points over Treasury bills, and foreign BA's an additional 10 to 20 basis points. During periods of easy money, the spreads can be substantially less. Likewise, tight money can produce wider yield differentials.

Since BA's are a "two-name paper" they are perceived to be the safest of bank obligations. During the more than 70 years that BA's have been actively traded in the U.S., no loss of principal has been documented.

GUIDELINES GOVERNING BA INVESTMENT: Only the most stable of banks shall be acceptable for purchase. Eligible banks must have the highest short-term rating available from at least two national rating services and must be approved by the County Treasurer or the investment advisor.

Since BA's are a relatively safe investment, the County Treasurer is authorized to invest in BA's up to the 40 percent maximum authorized by law. However, no more than 15 percent of funds in the Pooled Investment Fund shall be placed in the BA's of any one bank at any one time. In combination with all other investments from the same bank (excluding repurchase agreements and commercial paper with maturities of seven days or less), BA's of any one bank should not exceed 20 percent of surplus funds.

COMMERCIAL PAPER

INVESTMENT: Commercial paper (CP) shall be authorized as an acceptable investment for the Pooled Investment Fund.

REASONS: Commercial paper can be an appropriate short-term investment because of yield, liquidity and choice of maturities.

DEFINITION: Commercial paper is an unsecured negotiable instrument normally issued by large and financially sound corporations.

LEGAL AUTHORITY: Government Code § 53635 allows to invest up to 40 percent of surplus funds in commercial paper with maturities not to exceed 270 days. **(Amended 5/21/02)**

COMMERCIAL PAPER, cont.

HISTORY: The origin of commercial paper can be traced to the 19th Century in the United States where it became a substitute for bank loans.

CHARACTERISTICS: Commercial paper can be issued bearing a coupon or it can be discounted. Maturities never exceed 270 days and the majority of commercial paper is issued for 30 days or less. It can be issued by an "industrial" company or a bank holding company, but not directly by a bank.

Commercial paper can be written for any amount, but normally is issued in increments of $1 million. There is a secondary market for commercial paper, but it has very limited liquidity compared to the CD or BA markets.

Commercial paper issuers can obtain a letter of credit from a bank to guarantee payment of principal and interest at maturity or a bank line of credit that can be drawn on for such payment. Top grade commercial paper will typically yield about the same as top grade CDs.

RECOMMENDED GUIDELINES GOVERNING CP INVESTMENTS: Commercial paper eligible for purchase by the County Treasurer shall be issued by a company that:

(1) Has the highest rating offered by Moody's Investors Service, Inc. (A-1), or Standard and Poor's Corporation (P-1).

(2) Is approved by the County Treasurer or the investment advisor.

(3) Is organized and operating within the United States.

(4) Has assets in excess of $500,000,000.

Maturities of commercial paper shall not exceed 270 days. (Amended 5/21/02)

Purchases of the commercial paper of any one corporation shall not exceed 10 percent of its outstanding paper.

Up to 40 percent of surplus funds may be placed in commercial paper at any one time. (Amended 5/21/02)

No more than 10 percent of surplus funds shall be placed in the commercial paper of any one institution at any one time. In combination with all other investments from the same bank (excluding repurchase agreements of seven days or less) the commercial paper of any one institution shall not exceed 20 percent of surplus funds.

REPURCHASE AGREEMENTS

INVESTMENT: Repurchase Agreements (repos) shall be authorized as acceptable investment instruments for the Pooled Investment Fund.

REASONS: Repos are one of the most flexible investments available to invest short-term funds, and when proper guidelines are followed, are relatively safe.

DEFINITION: A repo involves two simultaneous transactions. One transaction involves the sale of securities (collateral) by a borrower of funds, typically a bank or broker/dealer in governments or agencies, to a lender of funds. The lender can be any investor with cash to invest. The second transaction is the commitment by the borrower to repurchase the securities at the same price plus a predetermined amount of interest on an agreed future date.

LEGAL AUTHORITY: Government Code §53601 permits repos in any security that is allowed for purchase as defined in that same section of the Code. Collateral must be delivered to the local agency by book entry, physical delivery or third party custodial agreement. Repos shall only be made with primary dealers of the Federal Reserve Bank of New York. Market value of collateral must be equal to at least 102 percent of the repo.

CHARACTERISTICS: Repos can be entered into with any amount of dollars, including odd amounts. They are typically for very short periods, often one day; but it is not unusual for repos to be for periods of up to 180 days and occasionally longer.

Any type of security can be used as collateral, but most often government or agencies securities are utilized. The term of the agreement shall not exceed one year.

The interest rate earned on a repo is a function of short-term borrowing rates, the term of the repo, the size of the transaction, and the quality and supply of the securities used as collateral.

The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than monthly.

The counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.

RISK: There are minimal risks involved in a repo transaction if the collateral is priced properly. Caution should be used for repos of greater than 30 days so that market changes do not substantially change the value of the collateral.

REPURCHASE AGREEMENTS, cont.

GUIDELINES: Repos shall be transacted only with banks and broker/dealers considered reputable and financially strong. Eligible banks or broker/dealers must have the highest short-term rating from at least two national rating services.

Collateral used for repos shall be any security approved for purchase. For repos of 30 days or less, no more than 20 percent of the funds managed by the County Treasurer shall be invested with any one institution.

For repos of over 30 days, no more than 10 percent of the funds managed by the County Treasurer shall be placed with any one institution.

Securities purchased through repurchase agreements shall be considered "owned" and added to the total of those securities (excluding repos of seven days or less). This will prevent percentage limitations on any type of security from being exceeded.

LOCAL AGENCY INVESTMENT FUND

INVESTMENTS: The State of California Local Agency Investment Fund (LAIF) shall be authorized as acceptable for deposit of funds from the County Treasurer.

REASONS: LAIF provides an attractive alternative for short term funds. Yields on LAIF are often higher than short term securities. Withdrawals can be made with short notice (24 hours or less) and the deposits are considered to be very safe.

DEFINITION: LAIF was created in 1977 as a source for California local agencies to pool smaller deposits to obtain the yield and safety advantages inherent to larger portfolios. LAIF deposits are part of the State Treasurer's pooled investment portfolio.

LEGAL AUTHORITY: Government Code §16429.1,2,3 allows a California local agency to place up to $30 million with LAIF (Amended May, 1999)

GUIDELINES GOVERNING LAIF: There shall be no restrictions on the amount of deposits that can be placed in LAIF.

SIERRA COUNTY
INVESTMENT POLICY

Authority

The Board of Supervisors has delegated to the county treasurer the authority to invest and reinvest all of the funds in the County Treasury pursuant to Sierra County Code §2.56.060.

Effective Date

This Investment Policy supersedes all previous policies and is effective on June 21, 2011 until further amended.

Policy Statement

Investments shall be placed in those securities as outlined in this document. Effective cash flow management and resulting cash investment practices are recognized as essential to good fiscal management and control. The investment portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law. Portfolio management requires continual analysis and, as a result, the balance between the various investments and maturities will change to give the Sierra County Pooled Investment Fund the optimum combination of necessary liquidity and yield based on cash flow projections.

The purpose of this Investment Policy is to establish cash management and investment guidelines for the Sierra County Pooled Investment Fund. Each transaction and the entire portfolio must comply with California Government Code §53601, et seq. and this Policy. All portfolio activities will be judged by the standards of the Policy and ranking of the investment objectives. Those activities that violate its spirit and intent will be deemed to be contrary to the Policy.

The County Treasurer has established the Policy and it has been considered and approved by the Board of Supervisors. Copies have been distributed to the legislative bodies of local agencies that participate in the Pooled Investment Fund. (Amended 8/04/09)

Standard of Care

The Sierra County Treasurer is a trustee and therefore a fiduciary subject to the prudent investor standard. The County Treasurer and employees involved in the investment process shall refrain from all business activity that could conflict with the management of the investment program. The County Treasurer and Assistant Treasurer are required to report all gifts and income in accordance with California State law. The Treasurer shall act with care, skill, prudence and diligence to meet the aims of the investment objectives when conducting investment activities and managing public funds.

Investment Objectives

The Pooled Investment Fund shall be prudently invested in order to earn a reasonable return, while awaiting application for government purposes. The specific objectives for the Pooled Investment Fund are ranked in order of importance.

1. **Safety of Principal** - the preservation of principal is the primary objective. Each transaction shall seek to ensure that capital losses are avoided, whether they are from securities default, broker-dealer default or erosion of market value. The County Treasurer shall seek to preserve principal by mitigating the two types of risk, credit risk and market risk.

Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the County's capital base and cash flow.

Market risk, defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long term securities for the sole purpose of short term speculation.

2. **Liquidity of Investments** - The Pooled Investment Fund should remain sufficiently flexible to enable the County Treasurer to meet all operating requirements which may be reasonably anticipated in any depositor's fund. Historic cash flow trends are compared to current cash flow requirements on an ongoing basis.

3. **Yield** - The Pooled Investment Fund should be designed to attain a market average rate of return through budgetary and economic cycles, consistent with the risk limitations, prudent investment principles and cash flow characteristics identified in this Policy.

Authorized Investments

Authorized investments shall include the general categories established by California Government Code (GC) Sections 53601. et seq. and 53635; the State Local Agency Investment Fund (LAIF) authorized in GC Section 16429.1; the California Asset Management Program (CAMP) authorized in GC Section 6509.7 and the Investment Trust of California (CalTRUST) authorized in GC Section 6509.7. As the California Government Code is amended, the Policy shall likewise become amended. The authorized investments, with maximum maturity and portfolio concentration are shown on the Summary of Investment Limitations. (Amended 8/04/09)

No security may be purchased with a final maturity of greater than five years from the date of ownership, unless specific approval has been obtained from the Board of Supervisors at least three months prior to the investment.

Authorized Investments for the Proceeds of Debt Issuance

Certain types of instruments are only allowable for the proceeds of debt issuance, Government Code §53356.03. The Treasurer is authorized to invest the proceeds of debt issuance such as, but not limited to, bonds and tax and revenue anticipation notes (TRANS) in the investments allowable in the resolution, indenture, trust agreement or other document providing for the issuance of the bonds. The earnings from the reinvestment of the proceeds of debt issuance shall not be a part of the investment pool earnings. Such earnings shall accrue to the agency responsible for repayment of the debt. The authorizing sections in the document shall constitute the investment guidelines for each issuance. (Amended April 17, 2001))

Investment Instrument Guidelines

Guidelines shall be developed for each type of investment authorized to allow the Investment Policy to be properly implemented. The guidelines will establish limits as to the amount of funds that can be placed in any one type of investment and in the securities (or deposits in) any one company. These limits will be based on the percentage each represents of surplus funds at the time of each purchase. Included in the guidelines will be a brief description of each type of security, legal authority, credit requirements, collateral requirements (if any), risk factors and other characteristics. The Investment Guidelines are attached to and are a part of this Policy.

Prohibited Investments

No investments shall be authorized that have the possibility of returning a zero or negative yield if held to maturity. These shall include but are not limited to: inverse floaters, range notes and interest only strips derived from a pool of mortgages.

Safekeeping of Securities

To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the Pooled Investment Fund shall be held in safekeeping by a third party bank trust department, acting as agent for the County Treasurer under the terms of a custody agreement. All trades executed by a dealer will settle delivery vs. payment (DVP) through the County Treasurer's safekeeping agent.

Certificates of deposit shall be safe kept in the County Treasurer's safe. (Added April 17, 2001)

Securities held in custody for the Pooled Investment Fund shall be independently audited on an annual basis to verify investment holdings.

Criteria for Selecting and Qualifications of Broker/Dealers and Financial Institutions

All transactions initiated on behalf of the Pooled Investment Fund shall be executed through either government security dealers reporting as primary dealers to the Market Reports Division of the Federal Reserve Bank of New York or financial institutions that directly issue their own securities.. The primary dealers and financial institutions must have a strong industry reputation and must have an investment grade rating from at least two national rating services, if applicable. The County Treasurer or the investment advisor shall maintain an Approved List of Broker/Dealers and Financial Institutions

Broker/Dealers and financial institutions which have exceeded the political contribution limits within a four year period to the County Treasurer or any member of the Board of Supervisors or any candidate for those offices, are prohibited from transacting business with the Sierra County Treasurer.

Each Broker/Dealer or financial institution will be sent a copy of this Policy and a list of those persons authorized to execute investment transactions. Each firm must acknowledge receipt of these materials and this acknowledgment shall be considered evidence that the dealer understands the County Treasurer's investment policies and intends to sell the County Treasurer only appropriate investments authorized by this Policy.

Competitive Bidding

Competitive bids shall be obtained when purchasing or selling securities whenever practical.

Investment Strategy

An economic scenario shall be developed and maintained to assist in developing an investment strategy. An investment strategy will be developed to help optimize earnings based upon liquidity needs and the economic scenario. Investments will be selected taking many variables into consideration. Several of the most important variables will be the shape of the yield curve, the anticipated change in that curve and the relative value of available securities. Proper use of the yield curve will involve not only purchasing securities with desirable maturities, but also swapping from existing portfolio securities with less desirable maturities into those with maturities that are perceived as currently more advantageous or into securities with more relative values. The average maturity of the portfolio will be shortened or lengthened primarily depending upon the expectations of future interest rates.

Cash Flow

Cash flow shall be analyzed and compared with the investment maturity schedules so that adequate cash will be available to meet disbursement requirements as well as developing a basis for the investment strategy.

An adequate percentage of the portfolio should be maintained in liquid short-term securities that can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investments in securities with active secondary or resale markets is highly recommended. Emphasis should be on marketable securities with low sensitivity to market risk. The County Treasurer shall also have the option of depositing funds with the Local Agency Investment Fund, especially to help meet liquidity requirements.

Method of Calculating Costs and Yield

Calculations for the treasurer's investment fee for costs of managing the investment portfolio include but are not limited to: investment management, accounting for the investment activity, custody of the assets, receiving and remitting deposits, oversight controls and costs, and indirect and overhead expenses as authorized in Government Code §27013. The fee is based upon actual costs and is subtracted from gross interest earnings on a quarterly basis prior to distribution of net interest earnings to all funds.
(Amended April 17, 2001)

Earnings Distribution

Interest earnings shall be allocated quarterly according to each fund's average daily cash balance as a percentage of the total investment pool. Earnings shall be the net of accrued and received interest, amortized premiums, accreted discounts and profit or loss on the sale or trade of a security attributable to the quarter being apportioned plus adjustments from prior quarters. The interest shall be apportioned as of the last day of the quarter and added to each participating fund's balance in the Pooled Investment Fund. The interest apportionment report shall show the gross interest, treasurer's administrative fee and net interest allocated to each fund that earns interest as a part of the investment pool.

Monitoring and Reporting of the Portfolio

Quarterly, the County Treasurer will provide to the Treasury Oversight Committee, the Board of Supervisors and to any local agency participant that requests a copy, a detailed report on the Pooled Investment Fund. The report will list the type of investment, name of the issuer, maturity date, par amount, adjusted cost amount and market value of each investment. Additionally, the report will list the weighted average maturity, pricing source, a statement of compliance with the Investment Policy and a statement of the Fund's ability to meet the expected expenditure requirements for the next six months.

Withdrawal Requests

The County Treasurer will honor all requests to withdraw funds for normal cash flow that are approved by the Sierra County Auditor at a one dollar net asset value. Any requests to withdraw funds for purposes other than cash flow such as for external investing, shall be subject to the consent of the County Treasurer. In accordance with Government Code §27136 et seq. and §27133(h) et seq., such requests for withdrawals must first be made in writing to the County Treasurer. These requests are subject to the County Treasurer's consideration of the stability and predictability of the Pooled Investment Fund, or the adverse affect on the interests of the other depositors in the Fund. Any withdrawal for such purposes shall be at the lower of market value or total adjusted cost of the Pooled Investment Fund as of the end of the month prior to the date of withdrawal.

For outside investors who utilize Government Code §53684, where the County Treasurer does not serve as the agency's Treasurer, any withdrawal request must be make in writing 30 days in advance. These withdrawals will also be at the lower of market value or total adjusted cost of the Pooled Investment Fund as of the end of the month prior to the date of withdrawal.

Terms and Conditions for Outside Investors

Outside local agencies, where the County Treasurer does not serve as the agency's treasurer, may invest in the Pooled Investment Fund through Government Code §53684 et seq. Deposits are subject to the consent of the County Treasurer. The local agency must adopt a resolution authorizing the county treasurer to invest on its behalf and declare the funds deposited with the treasurer as surplus. The local agency legislative body must approve the Sierra County Pooled Investment Fund as an authorized investment and execute a Memorandum of Understanding. Any withdrawal of these deposits must be made in writing 30 days in advance and will be paid at the lower of market value or total adjusted cost of the Pooled Investment Fund as of the end of the month prior to the date of withdrawal. If the County Treasurer deems appropriate, the deposits may be returned at any time. (Amended April 17, 2001)

Limitations on Honoraria

In accordance with Government Code §27133 (d) et seq., this Policy hereby establishes limits for the County Treasurer, individuals responsible for management of the portfolio and members of the Treasury Oversight Committee. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of $50 in a rolling twelve month time period from a broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the County Treasurer and complete the appropriate State forms.

No individual may receive aggregate gifts, honoraria and gratuities in a rolling twelve month time period in excess of $280. Any violation must be reported to the California Fair Political Practices Commission.