**RESOLUTION NO. 15-01**

**RESOLUTION OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK CONFIRMING ITS REVIEW OF, AND APPROVING AND ADOPTING CLARIFICATIONS AND CHANGES TO THE INVESTMENT POLICY OF THE IBANK**

**WHEREAS,** the California Infrastructure and Economic Development Bank (IBank) is established pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act (California Government Code Section 63000 et seq.) (IBank Act), for the purpose of providing financial assistance to eligible projects in the State of California (the "State") through a variety of financing mechanisms;

**WHEREAS,** pursuant to Government Code Section 63052(e) and as otherwise permitted by law, IBank may invest moneys of the Infrastructure Bank Fund, as defined by the IBank Act ("Infrastructure Bank Fund"), in obligations of financial institutions as are permitted by the Board of Directors of the IBank ("Board"); and

**WHEREAS,** pursuant to Government Code Section 63062(b) and as otherwise permitted by law, IBank may invest moneys of the Guarantee Trust Fund, as defined by the IBank Act (the "Guarantee Trust Fund") in obligations of financial institutions as are permitted by the Board;

**WHEREAS,** legislation enacted in 2013 and referred to as the Small Business Financial Assistance Act of 2013, (the "Small Business Act") (i) established the California Small Business Finance Center (the "Center") within IBank, (ii) transferred administration and State oversight of the State Small Business Loan Guarantee Program to the Center within IBank; and (iii) transferred administration of the fund associated with the activities of the Center (the "Expansion Fund") to IBank;

**WHEREAS,** pursuant to Government Code Section 63089.52(b) and as otherwise permitted by law, the investment of moneys of the Expansion Fund shall be governed by an investment policy approved by the Board;

**WHEREAS,** the IBank Board elected to formalize investment practices for the investment of IBank funds on deposit in the Infrastructure Bank fund and the Guarantee Trust Fund, and thus adopted an investment policy on March 28, 2006 (the "2006 Investment Policy")

**WHEREAS,** in view of the enactment of the Small Business Act, the Board now wishes to formalize investment practices for the investment of IBank funds on deposit in the Expansion Bank fund in the same manner provided for the Infrastructure Bank Fund and the Guarantee Trust Fund (collectively, the "Investment Funds");

**WHEREAS,** the 2006 Investment Policy requires an annual review by the IBank's Board, and the Board reviewed and in some cases amended, the 2006 Investment Policy in each subsequent year expect for 2009 and 2014 (as amended, the "Investment Policy"); and

**WHEREAS,** IBank Staff, with the assistance of the IBank's contract investment advisor and financial advisor, has conducted a review of the 2006 Investment Policy and has proposed certain clarifications and changes thereto;

**NOW, THEREFORE, BE IT RESOLVED,** by the Board of Directors of the California Infrastructure and Economic Development Bank, as follows:

**Section 1.** The above recitals are true and correct.

**Section 2.** The Board has reviewed the Investment Policy and IBank staff's proposed clarifications and changes, as reflected in the form attached hereto as Exhibit A (the "2015 Investment Policy").

**Section 3.** The Board of Directors hereby approves and adopts the 2015 Investment Policy.

**Section 3.** Authorization. The Board of Directors confirms its existing delegation to the Executive Director of the authority to direct the investment of IBank Investment Funds, and hereby directs and authorizes the Executive Director to implement the 2015 Investment Policy.

**Section 4.** Effective Date. This resolution shall take effect from and after its adoption.

**PASSED, APPROVED AND ADOPTED** at a meeting of the California Infrastructure and Economic Development Bank on February 24, 2014, by the following vote:

AYES: ROSSI, LUCHETTI, ORTEGA, CHIANG, JIMENEZ
NOES:
ABSENT:
ABSTAIN:

By: _____
Teveia R. Barnes, Executive Director

ATTEST:

By: _____
Diane Cummings, Chief Credit Officer

# CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

# INVESTMENT POLICY

## UPDATED INVESTMENT POLICY DATED February 24, 2015

**California Infrastructure and Economic Development Bank**
**Investment Policy**

## Table of Contents

**Section** **Page**


1.0 Policy ..... 1

2.0 Scope ..... 1

3.0 Objectives ..... 1

4.0 Prudence ..... 2

5.0 Delegation of Authority ..... 2

6.0 Internal Controls ..... 3

7.0 Ethics and Conflicts of Interest ..... 3

8.0 Authorized Financial, Institutions, Depositories and Broker/Dealers ..... 3

9.0 Safekeeping and Custody ..... 3

10.0 Authorized Investments and Deposits—IBank Investment Funds in State Treasury ..... 4

11.0 Authorized Investments and Deposits—IBank Investment Funds held by Bond Trustees Outside of the State Treasury ..... 4

12.0 Prohibited Investments ..... 5

13.0 Maximum Maturities ..... 5

14.0 Credit Criteria ..... 5

15.0 Performance ..... 5

16.0 Reporting ..... 6

17.0 Policy Adoption ..... 6

Exhibit A—Government Code Section 16430 Permitted Investments ..... A-1

Exhibit B—Government Code Section 63062(a) Permitted Investments ..... B-1

**California Infrastructure and Economic Development Bank**
**Investment Policy**

## 1.0 Policy

This Investment Policy and the related Exhibits (collectively, the Policy) are intended to provide guidelines for the prudent investment of funds authorized to be deposited or invested by the California Infrastructure and Economic Development Bank (IBank) and outline the policies for maximizing the efficiency of IBank's cash management system.

## 2.0 Scope

It is intended that this Policy cover the deposit or investment of all funds belonging to the California Infrastructure and Economic Development Bank and any other fund approved by the IBank Board of Directors (Board) unless otherwise required by law, regulation, or IBank's directives and requirements, excepting the following funds:

- Funds of entities for which IBank serves as the conduit issuer of bonds.

## 3.0 Objectives

The overall program shall be designed and managed with a degree of professionalism worthy of the public trust. Consistent with Government Code section 53600.5,[1] which establishes investment objectives for municipal entities, the primary objectives, in order of priority of IBank's investment activities shall be:

**1) Safety.** Safety of principal is the foremost objective of the investment program. IBank's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio through the mitigation of credit risk and interest rate risk. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

**2) Liquidity.** IBank's investments will remain sufficiently liquid to enable IBank to meet reasonably anticipated cash flow requirements.

**3) Return on Investment.** IBank seeks to enhance its financial return consistent with the prudent protection of its investments while conforming to all applicable state statutes governing the investment of these public funds.

[1] Government Code section 53600.5 establishes overall objectives for investment by local government entities. While this section does not specifically apply to IBank, it articulates the Legislature's overarching policy guidance on the investment of public funds: "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control."

## 4.0 Prudence

The Executive Director, as the individual authorized to make investment decisions on behalf of IBank, shall be held to the following prudent investor standard applicable to California municipal entities:

> When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.[2]

## 5.0 Delegation of Authority

Consistent with its authority under Government Code sections 63023(a), (b) and (g), 63025.1(v), 63052, and 63062, and pursuant to Resolution 10-19 adopted by the Board, the Executive Director is authorized to deposit and invest those funds that are within the scope of this Investment Policy. The Executive Director shall assume full responsibility for those transactions until the delegation of authority is revoked by the Board. The Executive Director shall determine when it is appropriate to use the services of an external investment advisor to provide funds management and advisory services to IBank based on the complexity or uniqueness of the investment or complexities resulting from market conditions (such as a disruption in a particular type of security).

The Executive Director shall establish an Investment Advisory Committee (IAC), which shall advise the Executive Director regarding the deposit, investment and management of the IBank Investment Funds. The IAC shall include the Executive Director, Deputy Executive Director, Chief Credit Officer, Chief Compliance Officer, and Fiscal Management Officer. Upon the request of the Executive Director, an external investment advisor may also advise the IAC and the Executive Director regarding the deposit, investment and management of IBank Investment Funds. The Executive Director shall make all deposit and investment decisions in strict accordance with applicable state law and this Policy and any other written instructions as are subsequently adopted by the Board.

The Executive Director shall designate certain staff members and, when authorized, an external investment advisor to perform the day-to-day funds management operations of IBank. All deposits and investments shall be made in strict accordance with the deposit and investment decisions of the Executive Director.

---

[2] Government Code section 53600.3.

## 6.0 Internal Controls

The Executive Director shall be responsible for all transactions undertaken by IBank's staff or its external investment advisor, and shall establish a system of controls to regulate the activities of internal staff and any external investment advisors. No person may engage in any deposit or investment transaction pertaining to the IBank Investment Funds except as provided under the terms of the control procedures established by the Executive Director.

## 7.0 Ethics and Conflicts of Interest

The Executive Director, the members of the IAC, IBank employees and investment advisors involved in funds management operations shall operate in a manner that is consistent with applicable conflict of interest and incompatible activity laws of the State and any statements of incompatible activities enacted by the Governor's Office of Business and Economic Development and IBank that applies to them. They shall refrain from personal business activities that could conflict with the proper execution of the funds management program, or which could impair their ability to make impartial investment decisions, advise on investment decisions, or perform their fund management activities impartially, as applicable.

## 8.0 Authorized Financial Institutions, Depositories and Broker/Dealers

It shall be IBank's policy when engaging directly in the purchase or sale of securities to do so only with properly licensed institutions and firms that have been approved by the State Treasurer's Office (STO). If an external investment advisor is authorized to conduct investment transactions on IBank's behalf, the investment advisor shall use its own list of approved broker/dealers and financial institutions for investment purposes.

All deposits made by IBank or its external investment advisor shall be made in qualified public depositories as established by State law.

For any bond related funds that are outside of the State Treasury, a competitive bid process which counsel to IBank advises is in compliance with Federal Tax law shall be used to place any guaranteed investment agreement, repurchase agreement, reverse repurchase agreement or similar investment transaction.

## 9.0 Safekeeping and Custody

All security transactions entered into by IBank shall be conducted on a delivery versus payment basis to ensure that securities are deposited in an authorized financial institution prior to the release of funds. The delivery of collateral associated with a repurchase agreement will be settled according to the associated master repurchase agreement.

All cash and securities in IBank's portfolio shall be held for safekeeping in IBank's name by a third party financial institution trust department, acting as agent for IBank under the terms of a custody agreement executed by the third party financial institution and IBank. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) funds held in the State Treasury, (ii) permitted money market mutual funds, and (iii) permitted structured investment products used for bond fund investments which by their terms are not deliverable. Evidence of

each of these investments will be maintained by IBank's Executive Director.

## 10.0 Authorized Investments and Deposits—IBank Investment Funds in the State Treasury

**CIEDB Fund.** In accordance with Government Code section 63052(d) as to IBank Investment Funds held in the CIEDB Fund within the State Treasury, IBank may:

- Direct the STO to invest such IBank Investment Funds that are not required for its current needs in any eligible security specified in Government Code section 16430 (the terms of which are set forth in Exhibit A to this Policy) provided that such investments shall be limited as provided in the underlined text in Exhibit A. The percentage holding limits set forth in Exhibit A are to be applied at the time of purchase. In addition to the direction as to percentage limits set forth in Exhibit A, purchases of individual securities shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.
- Direct the STO to deposit such IBank Investment Funds in any interest-bearing accounts in any bank or savings and loan association in California.
- Require the transfer of funds to the State's Surplus Money Investment Fund (SMIF), a State investment fund which is managed by the STO under the direction of the Pooled Money Investment Board for investment pursuant to Article 4 (commencing with Section 16470) of Chapter 3 of Part 2 of Division 4 of Title 2 of the Government Code. There is no limitation as to the percentage of the funds in the CIEDB Fund that may be invested in the SMIF.

**Guarantee Trust Fund.** In accordance with Government Code sections 63062(a) and (b) as to IBank Investment Funds held in the Guarantee Trust Fund within the State Treasury, IBank may:

- Direct the STO to invest such IBank Investment Funds that are not required for its current needs in any eligible security specified in Government Code section 16430 subject to the percentage limitations shown as underlined text in Exhibit A.
- Direct the STO to deposit such IBank Investment Funds in any interest-bearing accounts in any bank or savings and loan association in California.
- Direct the STO to invest such IBank Investment Funds in any other eligible securities listed in Government Code section 63062(a) as set forth in Exhibit B.
- Require the transfer of such IBank Investment Funds to SMIF. There is no limitation as to the percentage of the funds in the Guarantee Trust Fund that may be invested in the SMIF.

## 11.0 Authorized Investments and Deposits—IBank Investment Funds held by Bond Trustees Outside of the State Treasury

In accordance with Government Code sections 63052(e), 63062(b) and 5922(d) as to IBank Investment Funds that are proceeds of bonds or are set aside and pledged to secure payment of bonds and are held by bond trustees, IBank may:

- Direct the deposit or investment of such IBank Investment Funds in accordance with the provisions of the applicable bond indenture, trust agreement or other similar agreement entered into pursuant to a resolution of the Board.
- When the provisions of the applicable bond indenture, trust agreement or other similar agreement entered into pursuant to a resolution of the Board are silent as to the investment

of funds, direct the deposit or investment of such IBank Investment Funds that belong to the CIEDB Fund or the Guarantee Trust Fund as authorized in Section 10.0 above.

## 12.0 Prohibited Investments

Any investment or deposit not specifically authorized pursuant to Section 10.0 or 11.0 above (including Exhibits A and B referenced therein), but otherwise permitted by law, is prohibited unless otherwise approved by prior action of the Board. Investments in inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity are specifically disallowed.

## 13.0 Maximum Maturities

It is the objective of IBank to accurately monitor and forecast revenues and expenditures so that IBank can invest funds to the fullest extent possible. Funds of IBank will be invested in accordance with sound treasury management principles.

No investment shall be made in any security, other than a collateral security underlying a repurchase agreement or collateral for any permitted investment agreement, that at the time of the investment has a term remaining to maturity in excess of five years, unless otherwise authorized herein or the Board has granted express authority to make that investment or has authorized an investment program of a longer maturity that is applicable to such investment.

Notwithstanding the prior paragraph, bond reserve funds and bond revenue funds may be invested beyond five years if prudent in the opinion of the Executive Director.

## 14.0 Credit Criteria

In the event a security in which IBank funds are invested is subject to a rating change that brings it below the minimum credit ratings specified in this Policy or the applicable bond indenture or other applicable bond document, the Executive Director shall notify the Board of the change at their next regularly scheduled meeting along with the funds management decision taken or proposed to be taken. Such funds management decisions will be made by the Executive Director on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rating drops, and the market price of the security.

## 15.0 Performance

For funds held in the State Treasury, IBank seeks to attain market rates of return on its investments throughout economic cycles, consistent with constraints imposed by its safety and liquidity objectives.

For funds held by bond trustees, IBank seeks to optimize the return on its investments consistent with constraints imposed by its safety and liquidity objectives, arbitrage rebate regulations, and market conditions.

## 16.0 Reporting

The Executive Director shall submit a monthly deposit and investment transaction report and a quarterly investment report to the Board. Except for funds invested in SMIF, the quarterly report shall include the following information for each individual investment: description of investment instrument, issuer name, maturity date, credit rating, coupon rate, effective yield, purchase price, par value, book value, current market value and the source of the valuation.

The quarterly investment report shall also identify whether any investment fails to comply with this Policy and the plan for bringing that investment into compliance, and include a statement denoting the ability of IBank to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money may or may not be available. The quarterly investment report shall be submitted the later of 30 days following the end of the month covered by the report, or the next scheduled IBank Board meeting.

The Executive Director shall monitor the status of the funds held by the trustees for the ISRF Program Bonds and any IBank Other Bonds Directed Investments to ensure that each issue's arbitrage rebate status is tracked and reported in compliance with the provisions of the Internal Revenue Code and related Treasury Regulations.

## 17.0 Policy Adoption

This Policy shall be reviewed annually by the Board. Any change in the Policy shall be reviewed and approved by the Board at a regularly scheduled meeting.

**Exhibit A**
**Government Code Section 16430 Permitted Investments**

*Note: The underlined text represents additional criteria established by IBank that is not listed in Government Code section 16430.*

Government Code section 16430:

a. Bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio[4] that may be invested in this category.

b. Bonds or interest-bearing notes on obligations that are guaranteed as to principal and interest by a federal agency of the United States. There is no limitation as to the percentage of the portfolio that may be invested in this category; however, the amount invested in any one issuer, including related entities, may not exceed 40 percent of the portfolio.

c. Bonds, notes and warrants of this state, or those for which the faith and credit of this state are pledged for the payment of principal and interest. A maximum of 30 percent of the portfolio may be invested in this category.

d. Bonds or warrants, including, but not limited to, revenue warrants, of any county, city, metropolitan water district, California water district, California water storage district, irrigation district in the state, municipal utility district, or school district of this state. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested with any one issuer, including related entities, shall not exceed 5 percent of the portfolio.

e. Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended (12 U.S.C. Sec. 2001 et seq.), debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended (12 U.S.C. Sec. 2001 et seq.), in bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act (12 U.S.C. Sec. 1421 et seq.), in stock, bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act as amended (12 U.S.C. Sec. 1701 et seq.), and bonds of any federal home loan bank established under that act, obligations of the Federal Home Loan Mortgage Corporation, in bonds, notes, and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act as amended (16 U.S.C. Sec. 831 et seq.), and other obligations guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act as amended (15 U.S.C. Sec. 714 et seq.). There is no limitation as to the percentage of the portfolio that may be invested in this category; however, the amount invested in any one issuer, including related entities, may not exceed 40 percent of the portfolio.

[4] A "portfolio" means all monies in a fund, such as the CIEDB Fund or the Guarantee Trust Fund, or individual bond issuances related to IBank Other Bonds Directed Investments.

f. (1) Commercial paper of "prime" quality as defined by a nationally recognized organization that rates these securities, if the commercial paper is issued by a corporation, trust, or limited liability company that is approved by the Pooled Money Investment Board that meet the conditions in either subparagraph (A) or subparagraph (B):

(A) Both of the following: (i) Organized and operating within the United States. (ii) Having total assets in excess of five hundred million dollars ($500,000,000).

(B) Both of the following conditions: (i) Organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) Having programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.

(2) Purchase of eligible commercial paper may not exceed 180 days' maturity, represent more than 10 percent of the outstanding paper of an issuing corporation, trust, or limited liability company, exceed 30 percent of the resources of an investment program. Purchases of eligible commercial paper are limited to those issued by issuers listed on the State of California's Pooled Money Investment Account Active Approved Commercial Paper Issuers. The amount invested in commercial paper of any one issuer in combination with any other securities from that issuer, including related entities, shall not exceed 5 percent of the portfolio.

g. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, that are eligible for purchase by the Federal Reserve System. A maximum of 40 percent of the portfolio may be invested in this category. The amount invested in bankers acceptances with any one financial institution in combination with any other securities from that financial institution, including related financial institutions, shall not exceed 5 percent of the portfolio.

h. Negotiable certificates of deposits issued by a federally or state-chartered bank or savings and loan association, a state-licensed branch of a foreign bank, or a federally or state-chartered credit union. For the purposes of this section, negotiable certificates of deposits are not subject to Chapter 4 (commencing with Section 16500) and Chapter 4.5 (commencing with Section 16600). A maximum of 30 percent of the portfolio may be invested in this category. The amount invested in negotiable certificates of deposits with any one financial institution in combination with any other securities from that financial institution, including related financial institutions, shall not exceed 5 percent of the portfolio.

i. Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation, or the Government Development Bank of Puerto Rico. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested in any one financial institution in combination with any other securities from that financial institution, including related financial institutions, shall not exceed 5 percent of the portfolio.

j. Bonds, debentures, and notes issued by corporations organized and operating within the United States. Securities eligible for investment under this subdivision shall be within the top three ratings of a nationally recognized rating service. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested in corporate notes of any

one issuer in combination with any other securities from that issuer, including related entities, shall not exceed 5 percent of the portfolio.

k. Negotiable Order of Withdrawal Accounts (NOW Accounts), invested in accordance with Chapter 4 (commencing with Section 16500).

**Exhibit B**
**Government Code Section 63062(a) Permitted Investments**

Government Code section 63062(a) (in part):

IBank may direct the Treasurer to invest monies:

- By entering into repurchase agreements or reverse repurchase agreements, which, for purposes of this section, shall mean agreements for the purchase or sale of eligible securities pursuant to which the seller or buyer agrees to repurchase or sell back the securities on or before a specified date and for a specified amount;
- In the subordinated securities of IBank, a special purpose trust, or a sponsor; or
- In investment agreements with corporations, financial institutions, or national associations within the United States that are rated by a nationally recognized rating service within the top three rating categories of the service. For purposes of this section, investment agreements shall mean any agreement for the investment of monies whether at fixed or variable interest rates, and may include, but not be limited to, repurchase agreements, notes, uncollateralized time deposits, certificates of deposit, and the subordinated securities of IBank, a special purpose trust, or a sponsor.