

Attachment 1 - IBank 2019 Investment Policy

## **2019 Investment Policy**

# **CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK**

## **2019 INVESTMENT POLICY**

**OCTOBER 23, 2019**

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

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# 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 IBank, and any and all programs of IBank, and any other fund or program 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,<sup>1</sup> 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.

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<sup>1</sup> 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.<sup>2</sup>

#### **5.0 Delegation of Authority**

Government Code section 63023 authorizes, among other things, the Executive Director to, pursuant to Board resolution, establish procedures and guidelines for IBank programs, and to invest money within the California Infrastructure and Economic Development Bank Fund (the IBank Fund) and the California Infrastructure Guarantee Trust Fund (the Guarantee Fund). Government Code Section 63025.1(v) authorizes the Board to delegate to the Executive Director the authority to “Invest any moneys held in reserve or sinking funds, or any moneys not required for immediate use or disbursement, in obligations that are authorized by law for the investment of trust funds in the custody of the Treasurer.”

Government Code Section 63052(d) authorizes the investment of moneys within the IBank Fund, including any bond sale proceeds, that are not required for IBank’s current needs in eligible securities specified in Government Code Section 16430. Government Code Section 63052(h) requires that IBank invest IBank Fund moneys that exceed IBank’s current cash requirements.

Government Code Section 63062 authorizes the investment of moneys within the Guarantee Fund that are not required for IBank’s current needs in eligible securities specified in Government Code Section 16430.

Government Code Section 63089.4 authorizes IBank’s investment of California Small Business Expansion Fund (the Expansion Fund) money, and Expansion Fund money that is held in trust by a financial institution or a financial company (the Trust Fund). Government Code Section 63089.52(a) directs that the program manager of the California Small Business Finance Center (the Program Manager), with the Executive Director’s approval, require the trustee of any Trust Fund moneys to invest in any securities described in Government Code Section 16430. Government Code Section 63089.52(b) provides that any investment in Government Code Section 16430 securities shall be governed by an investment policy approved by the IBank Board.

This Investment Policy constitutes (1) the Board-approved procedures and guidelines directing the Executive Director’s investment of money within the IBank Fund and the Guarantee Fund, all pursuant to Government Code Section 63023; (2) the Board’s delegation of authority to the Executive Director to invest money, pursuant to the dictates of this Investment Policy, as set forth in Government Code Section 63025.1(v); (3) the Board’s direction to the Executive Director to invest moneys in the IBank Fund and the Guarantee Fund, as directed by this Investment Policy, as set forth in Government Code Sections 63052 and 63062; (4) the Board’s approval of the investment of Expansion Fund and Trust Fund moneys pursuant to the dictates of this Investment Policy, as set forth in Government Code Sections 63089.4 and 63089.52(a); and (5) the “investment policy” required under Government Code

Section 63089.52(b).

Consistent with its authority under Government Code sections 63023(a), (b), (g), and (h), 63025.1(v), 63052, 63062, 63089.4, 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 IBank money held by IBank that is not currently required for the administration or operation of IBank or the payment of debt service on IBank obligations (IBank Investment Funds), all in a manner consistent with this Investment Policy. The IAC shall include the Executive Director, Chief 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.

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<sup>2</sup>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 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 as provided in this Investment Policy 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.

Any deposits of IBank Fund moneys made by IBank or its external investment advisor shall be made in qualified public depositories pursuant to Government Code Section 63052(d). Any such deposits of Guarantee Fund moneys shall be made in qualified public depositories pursuant to Government Code Section 63062(a). Any such deposits of Expansion Fund or Trust Fund moneys shall be made in qualified depositories as permitted by State law.

IBank shall invest any proceeds of IBank's direct bonds that are held outside of the State Treasury, to the extent applicable, in a manner consistent with Government Code Section 63081 and Federal and State tax law. To the extent Government Code Section 63081 is not applicable, such proceeds will be invested in compliance with Federal and State tax law following consultation with IBank's financial advisor retained in connection with any such bond sale

## **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, (iii) permitted structured investment products used

for bond fund investments which by their terms are not deliverable and (iv) securities purchased pursuant to a repurchase agreement for the investment of funds held by a bond trustee that are held in the name of the bond trustee for the benefit of IBank. 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**

**IBank Fund.** In accordance with Government Code section 63052(d) as to IBank Investment Funds held in the IBank 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 (Section 16430) (the terms of which are set forth in Exhibit A to this Policy) provided that such investments shall be limited as follows: (1) For investments of the type set forth in Section 16430(b), the amount invested in any one issuer, including related entities, may not exceed 40% of the portfolio<sup>3</sup>; otherwise, there is no limit on the percentage of the portfolio that may be invested in this category; (2) No more than 30% of the portfolio may be invested in securities of the type set forth in Section 16430(c); (3) No more than 30% of the portfolio may be invested in securities of the type set forth in Section 16430(d) and the amount invested in any one issuer, including related entities, shall not exceed 5% of the portfolio; (4) For investments of the type set forth in Section 16430(e), the amount invested in any one issuer, including related entities, may not exceed 40% of the portfolio, otherwise, there is no limit on the percentage of the portfolio that may be invested in this category; (5) For the purchase of commercial paper as set forth in Section 16430(f), such purchases will be limited to commercial paper issued by issuers listed on the State of California’s Pooled Money Investment Account Active Approved Commercial Paper Issuers, and the amount invested in commercial paper of any one issuer in combination with any other securities from that issuer, including related entities, may not exceed 5% of the portfolio; (6) No more than 40% of the portfolio may be invested in the securities of the type set forth in Section 16430(g), and the amount invested in any such securities with any one financial institution in combination with any other securities from that financial institution, including related entities, shall not exceed 5 percent of the portfolio; (7) No more than 30% of the portfolio may be invested in the securities of the type set forth in Section 16430(h), and the amount invested in any such securities with any one financial institution in combination with any other securities from that financial institution, including related entities, shall not exceed 5 percent of the portfolio; (8) No more than 30% of the portfolio may be invested in the securities of the type set forth in Section 16430(i), and the amount invested in any such securities with any one financial institution in combination with any other securities from that financial institution, including related entities, shall not exceed 5 percent of the portfolio; and (9) No more than 30% of the portfolio may be invested in the securities of the type set forth in Section 16430(j), and the amount invested in any such securities with any one financial institution in combination with any other securities from that financial institution, including related entities, shall not exceed 5 percent of the portfolio.
- The percentage holding limits set forth immediately above are to be applied at the time of purchase. In addition to the direction as to percentage limits set forth above, 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

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<sup>3</sup> A “portfolio” means all monies in a fund, such as the Infrastructure and Economic Development Bank Fund, or individual bond issuances related to any other bonds investments directed by IBank.

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 IBank Fund that may be invested in the SMIF.

**Guarantee Fund.** In accordance with Government Code sections 63062(a) and (b) as to IBank Investment Funds held in the Guarantee 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 same percentage limitations set forth in the first bullet point of Section 10.1 of this Investment Policy.
- 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), 63081(c) and (d), 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,<sup>3</sup> 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 provide no guidance as to the investment of funds, direct the deposit or investment of such IBank Investment Funds in a manner consistent with the investment restriction set forth in Sections 10.1 or 11.1, as applicable.

## **12.0 Prohibited Investments**

Any investment or deposit not specifically authorized pursuant to Section 10.1 or 11.1, 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 by the Act (in particular, Government Code Section 63081) or 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.

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<sup>4</sup> Including the investment of certain funds pertaining to ISRF Program Bonds and any other bonds investments directed by IBank.

## **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 other bonds investments directed by IBank 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**  
**Text of Government Code Section 16430**

16430.

Eligible securities for the investment of surplus moneys shall be any of the following:

- (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.
- (b) Bonds or interest-bearing notes on obligations that are guaranteed as to principal and interest by a federal agency of the United States.
- (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.
- (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.
- (e) Any of the following:
  - (1) 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.).
  - (2) 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.).
  - (3) 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.).
  - (4) Stocks, 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.).
  - (5) Bonds of any federal home loan bank established under that act.
  - (6) Obligations of the Federal Home Loan Mortgage Corporation.
  - (7) 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.).
  - (8) 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.).
- (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 federally or state-chartered bank or a state-licensed branch of a foreign bank, corporation, trust, or limited liability company that is approved by the Pooled Money Investment Board as meeting the conditions specified in either subparagraph (A) or subparagraph (B):
  - (A) Both of the following conditions:
    - (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 federally or state-chartered bank or a state-licensed branch of a foreign bank, special purpose corporation, trust, or limited liability company.
    - (ii) Having program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
- (2) A purchase of eligible commercial paper may not do any of the following:
  - (A) Exceed 270 days maturity.
  - (B) Represent more than 10 percent of the outstanding paper of an issuing federally or state-chartered bank or a state-licensed branch of a foreign bank, corporation, trust, or limited liability company.

- (C) Exceed 30 percent of the resources of an investment program.
- (3) At the request of the Pooled Money Investment Board, an investment made pursuant to this subdivision shall be secured by the issuer by depositing with the Treasurer securities authorized by Section 53651 of a market value at least 10 percent in excess of the amount of the state's investment.
- (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.
- (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).
- (i) The portion of bank loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration.
- (j) Bank loans and obligations guaranteed by the Export-Import Bank of the United States.
- (k) Student loan notes insured under the Guaranteed Student Loan Program established pursuant to the Higher Education Act of 1965, as amended (20 U.S.C. Sec. 1001 et seq.) and eligible for resale to the Student Loan Marketing Association established pursuant to Section 133 of the Education Amendments of 1972, as amended (20 U.S.C. Sec. 1087-2).
- (l) 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.
- (m) 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.
- (n) 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.