

CITY AND COUNTY OF SAN FRANCISCO HEALTH SERVICE SYSTEM TRUST FUND

DRAFT INVESTMENT POLICY STATEMENT

Effective January 2017

1.0 Background and Policy Objectives

The City and County of San Francisco Health Service System (“HSS”) was established through a City Charter amendment in 1937. At that time, the Health Service System Fund (“Fund”) was established to facilitate the contributions and disbursements of the System, while also providing a funding source to ensure payments could be made if disbursements exceeded contributions for a period of time.

The purpose of this Investment Policy Statement is to set forth the objectives and constraints on the Fund, and to establish appropriate guidelines and options for investing Fund assets.

2.0 Fiduciary Standards

The San Francisco Health Service Board (Board) is the fiduciary for the Fund and is charged with governing the Fund.¹

As Trustees of the Fund, Board members are fiduciaries. Key fiduciary standards governing the Fund are:

- **California Uniform Prudent Investor Act (UPIA)** – The UPIA standard requires that a fiduciary manage trust assets “as a prudent investor would, by considering the purposes, terms, distribution requirements and other circumstances of the trust,” and, in satisfying that standard, the fiduciary “shall exercise reasonable care, skill, and caution.” The fiduciary must also diversify the investments of the trust unless the fiduciary reasonably determines that the purposes of the trust are better served without diversifying.
- **HSS Board Governance Manual** – In keeping with its fiduciary duty to prudently administer the Health Service Trust Fund, the Board shall be responsible for approval and subsequent review of a written policy statement, ensuring responsible management thereof, compliance with the policy, and ongoing review of investment performance.

3.0 Statutory Requirements

The Fund must adhere to the following statutory requirements

¹ City and County of San Francisco Charter Section A8.429.

Charter Section A8.429:

- *“The health service board shall have control of the administration and investment of the health service system fund, provided that all investments shall be of the character legal for insurance companies in California.”*
- References the California Insurance Code, sections 1170-1202

California Government Code, section 53600

- In general, this code limits local agency investment funds to high quality, fixed income securities with maturities of less than five years.
- Permitted securities include:
 - Obligations of the United States Government (Treasuries), federal agencies, municipalities, and negotiable Certificates of Deposits (CD) are allowed with a maximum maturity of five years. Securities with a maturity of greater than five years require Board approval.
 - Medium-term corporate bonds (“A” or better) and asset-backed securities with a maximum maturity of five years.
 - Repurchase agreements with a maximum maturity of one year.
 - Commercial paper with a maximum maturity of 270 days.
 - Bankers’ acceptances notes with a maximum maturity of 180 days.
- Prohibited securities include Commercial Mortgage Backed Securities, high yield bonds, private placements, convertibles, non-United States denominated investment grade bonds, emerging market debt, equities, commodities, real estate, hedge funds, and private equity.
- The following link provides further details on permissible and prohibited investments:
http://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=GOV&division=2.&title=5.&part=1.&chapter=4.&article=1.

Section 53600 of the Government Code is more restrictive than the California Insurance Code, however, both must be considered when investing the Fund’s assets.

4.0 Investment Goals

The purchase and administration of health and other benefits necessitates significant cash inflows and outflows in the Fund. Therefore, the primary goal of the Fund is to act as a temporary repository of assets before such assets are disbursed. The objectives of the Fund are:

Safety: Safety of principal is the foremost objective of the Fund. Investments of Fund assets shall be undertaken in a manner that seeks to ensure the preservation of capital. To attain this objective, the Fund will seek a portfolio of diversified, low risk assets.

Liquidity: The Fund’s portfolio shall maintain sufficient liquidity to enable the HSS to meet all obligations when due.

Return on Investments: Lastly, the Fund’s assets should be invested with the objective of generating a market rate of return without undue compromise of the first two objectives – safety and liquidity.

5.0 Investment Options

The HSS Board shall consider several factors when determining the most prudent course of investing the Fund’s assets, including:

1. The goals and constraints of the Fund (see 4.0 Safety and Liquidity above)
2. Return expectations
3. Costs to the Fund

The following options that currently satisfy these factors:

1. Investing assets in the City and County of San Francisco’s Treasury Pool¹ (which complies with California Government Code 53600). Investment in the City and County of San Francisco’s Treasury Pool also meets Section 16 of the Health Service Board’s Governance Manual (referenced above). If adopted, the Board shall receive quarterly written updates on the performance of the Treasury Pool and an annual update from Treasurer and Tax Collector staff.
2. Investing assets with external investment managers to run a portfolio that will comply with the California Government Code.
3. Making direct purchases of investment assets.

6.0 Review

The Board shall decide the most appropriate option for investment of the Trust Fund and shall review this decision at least every three (3) years. Material changes in market conditions or changes to the investment team managing the Trust Fund assets or the team’s strategy would require a more timely review.

7.0 Effective Date

The policy is effective immediately upon Board approval.

¹ The City and County of San Francisco’s Treasury Pool’s investment priorities of safety, liquidity, and return align with the objectives of the HSS Fund. The Treasury Pools Investment Policy is reviewed and monitored by the Treasury Oversight Committee pursuant to City and County Administrative Code Section 10.80-1.