

MEETING MATERIALS

San Francisco
Health Service System Trust Fund
Analysis of Investment Options
Based on the Draft Investment Policy

January 12, 2017



M E K E T A I N V E S T M E N T G R O U P

BOSTON
MASSACHUSETTS

CHICAGO
ILLINOIS

MIAMI
FLORIDA

PORTLAND
OREGON

SAN DIEGO
CALIFORNIA

LONDON
UNITED KINGDOM

www.meketagroup.com

Table of Contents

1. Mission of the Health Service System (HSS)	Page 3
2. Purpose of the HSS Trust Fund	Page 4
3. HSS Trust Fund Investment Objectives and Constraints	Page 5
4. Investment Options	Page 7
5. Summary	Page 16
6. Recommendations.....	Page 17
7. Appendices	
• Appendix A: Government Code 53600-53610	Page 18
• Appendix B: City and County of San Francisco Office of the Treasurer and Tax Collector Investment Policy.....	Page 29

Mission of the Health Service System (HSS)

- Health Service System Mission Statement:

“The Health Service System of the City & County of San Francisco is dedicated to preserving and improving sustainable, quality health benefits and to enhancing the well-being of employees, retirees and their families.”

- To fulfil its mission statement, HSS must be financially sound, with the ability to make all payments, when due, in order to prevent any disruption in services to the members.
- The HSS Trust Fund (Trust Fund) is a critical component to the HSS’s ability to remain financially sound.

Purpose of the HSS Trust Fund

- The Trust Fund serves two primary purposes:
 1. Temporarily hold contributions into the plan before disbursements are made (operating cash account)
 2. Act as a funding source to ensure payments could be made if disbursements exceeded contributions for a period of time (reserve account)
- Thus, the primary goal of the Trust Fund is to act as a temporary repository of assets before such assets are disbursed.

HSS Trust Fund Investment Objectives and Constraints

- Based on the goal of the Trust Fund, we believe it is prudent to invest the assets in a very conservative manner, focusing on safety of principal and liquidity, with return on investment a tertiary consideration.
- Additionally, as a local agency, the assets of the Trust Fund are subject to certain statutory requirements, including California Government Code 53600. In general, this code limits local agency investment funds to high quality, fixed income securities with a maximum maturity of five years.
- The following page summarizes the permissible investments under California Government Code 53600.

Permitted Investments per Government Code 53600

	INSTRUMENT	Term Remaining To Maturity					
		OVERNIGHT	180 DAYS	270 DAYS	1 YEAR	5 YEARS	BEYOND 5 YEARS
Conventional Fixed-Income	U.S. Treasuries	Permitted					Legislative Body Approval Required ¹
	Federal Agencies	Permitted					Legislative Body Approval Required ¹
	Municipal Securities	Permitted					Legislative Body Approval Required ¹
	Negotiable CD's	Permitted					Legislative Body Approval Required ¹
	Medium-Term Corporate Bonds	Permitted					Prohibited
	Asset-Backed Securities	Permitted					Prohibited
	Repurchase Agreements	Permitted				Prohibited	
	Commercial Paper	Permitted			Prohibited		
	Bankers' Acceptances	Permitted		Prohibited			
	Money Market Funds	Permitted	Prohibited				
Local Government Investment Pools	Permitted	Prohibited					

¹ Commission, committee, board, or other body of a local agency, whether permanent or temporary, decision making or advisory, created by charter, ordinance, resolution, or formal action of a legislative body.



Investment Options

- Statutory requirements and the goals of the Trust Fund dictate a conservative investment approach.
- Currently, the assets of the Trust Fund are invested conservatively, as they are invested in the City and County of San Francisco (CCSF) Pooled Fund Investment Program (Treasury Pool), which is also subject to California Government Code 53600.
- While the Treasury Pool satisfies the requirements of HSS, the Health Service Board (Board) has the fiduciary responsibility to periodically review the most appropriate investment option for the Trust Fund assets.
- Therefore, the Board should periodically review if there are other ways that the Trust Fund's assets could be invested to satisfy its primary goals of safety of principal and liquidity, while potentially increasing yield as well.

Investment Options (continued)

- In addition to the option of the Treasury Pool, other investment options include:
 1. Making direct purchases of investment assets.
 - We do not view this as reasonable, considering the expense it would cost for HSS to build out its own investment team, which could include the hiring of portfolio managers, investment analysts, and traders, as well as the procurement of the necessary hardware and software to support an investment program.
 2. Investing assets with external investment managers to run a portfolio that will satisfy the goals of the Trust Fund and comply with the California Government Code.
 - While this would not require HSS to invest significant assets in internal resources, investment expenses would increase relative to the fees paid to the Office of the Treasurer and Tax Collector.

Investment Options (continued)

- The chart on the following page compares historical returns and potential expenses of the Treasury Pool with two potential alternative solutions.
- The following assumptions are made:
 - All options assume a market value of \$15 million¹.
 - Alternative 1 - Fees and returns are based on the CalTRUST Short-Term Fund, an investment vehicle with daily liquidity that is compliant with California Government Code 53600. (The California State Association of Counties Finance Corporation and the League of California Cities created CalTRUST to provide a convenient method for local agencies to pool their assets for investment.)
 - Alternative 2 - Fees and returns are based on a current public sector Meketa client that has a Customized Program of separate account managers running portfolios compliant with California Government Code 53600.
 - Returns for the Treasury Pool are based on monthly yields.

¹ Net Position of the Trust Fund as of June 30, 2016, less obligations and reserves, as discussed at the December 8, 2016 Health Service Board meeting

Investment Options (continued)

	Treasury Pool	CalTRUST Short-Term Fund	Customized Program
Investment Management Fees	0.08%	0.15%	0.10%
Investment Management Fees (\$)	11,710	21,955	14,637
Estimated Custodial Fees (\$)	0	10,000	20,000
Total Estimated Fees (\$)	11,710	31,955	34,637
Total Estimated Fees	0.08%	0.22%	0.24%
Historical Returns (5 year annualized)	0.67%	0.46%	0.87%
Annual returns, less estimated fees	0.59%	0.24%	0.63%
Annual returns, less estimated fees	87,055	35,386	92,560
Net benefit relative to Treasury Pool	--	(51,668)	5,505

- Based on this analysis, investing assets with external managers could provide the Trust Fund with additional return, but likely at higher risk and expense.

Investment Options (continued)

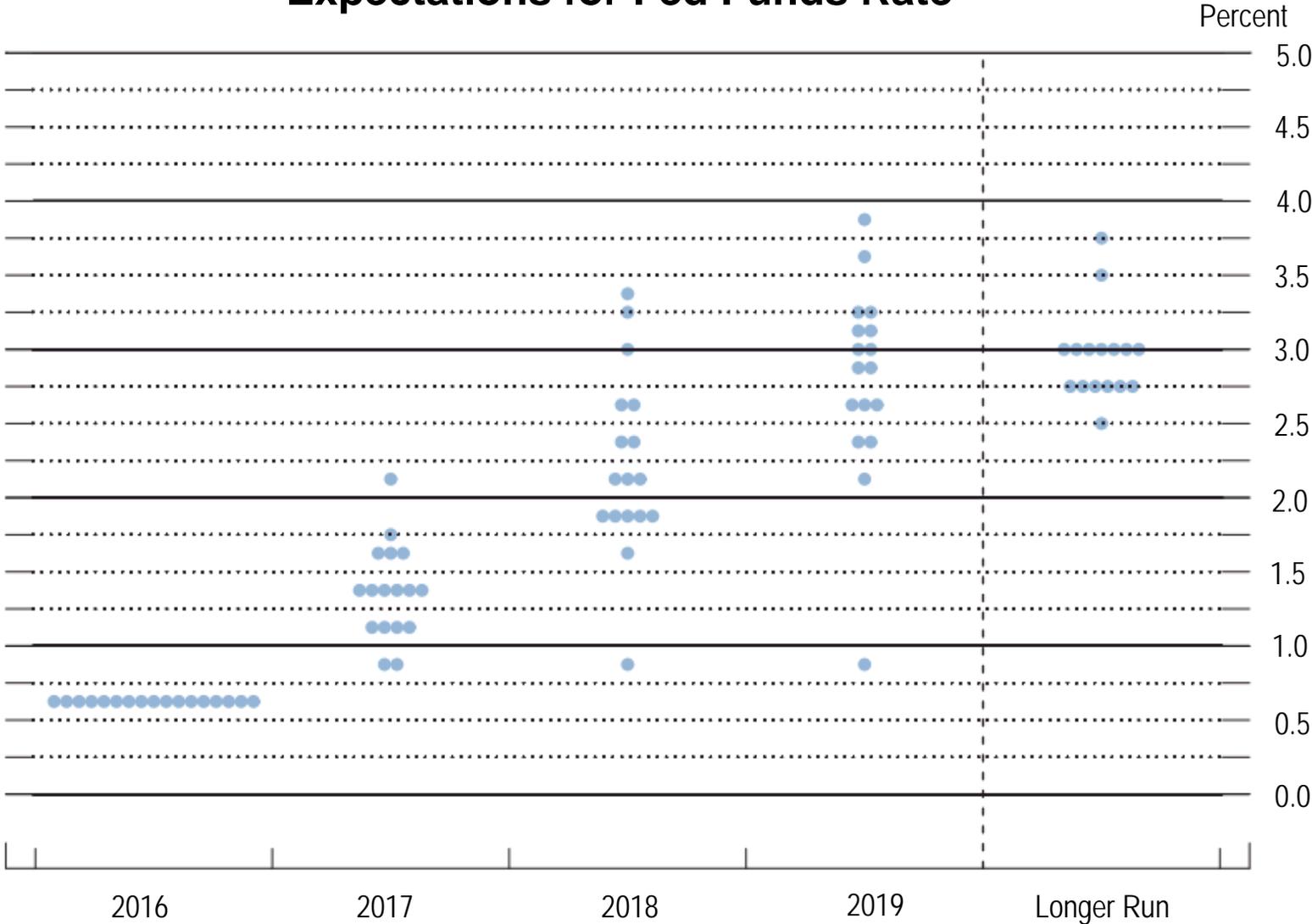
- Despite the potential for higher returns, creating a customized program may not be the best solution for the following reasons:
 - Additional operational complexity for HSS, as HSS would need to create the program, and hire and monitor external managers.
 - Higher returns likely offset by the need for additional resources (either internal staff or external consultants) to help monitor the investment program and managers.
 - The Customized Program maximum loss over the past five years was 0.35% due to market returns while the Treasury Pool reports a stable Net Asset Value (NAV). Assuming a \$15 million investable asset base for the Trust Fund, the Customized Program would have led to a \$51,000 loss in market value, and would have taken 8 months to recover.
 - The Customized Program weighted average maturity is currently 628 days vs. 380 days for the Treasury Pool. While still conservative, the longer duration profile makes the assets more sensitive to increases in interest rates, as the price of long duration bonds falls more than short duration bonds when interest rates fall. The converse also holds true.

Investment Options (continued)

- In addition to a longer duration portfolio of the Customize Program, HSS could also hire managers to take on more credit risk to enhance returns. However, due to the goals of the Trust Fund, we do not view taking on more risk as prudent.
- The current market environment does not appear to be conducive to taking on duration risk (rates are rising) or credit risk (credit spreads¹ are low relative to historical averages).
- Please see the following pages for additional details on interest rates expectations and credit spreads.

¹ Difference in yield between two bonds of similar maturity but different credit quality.

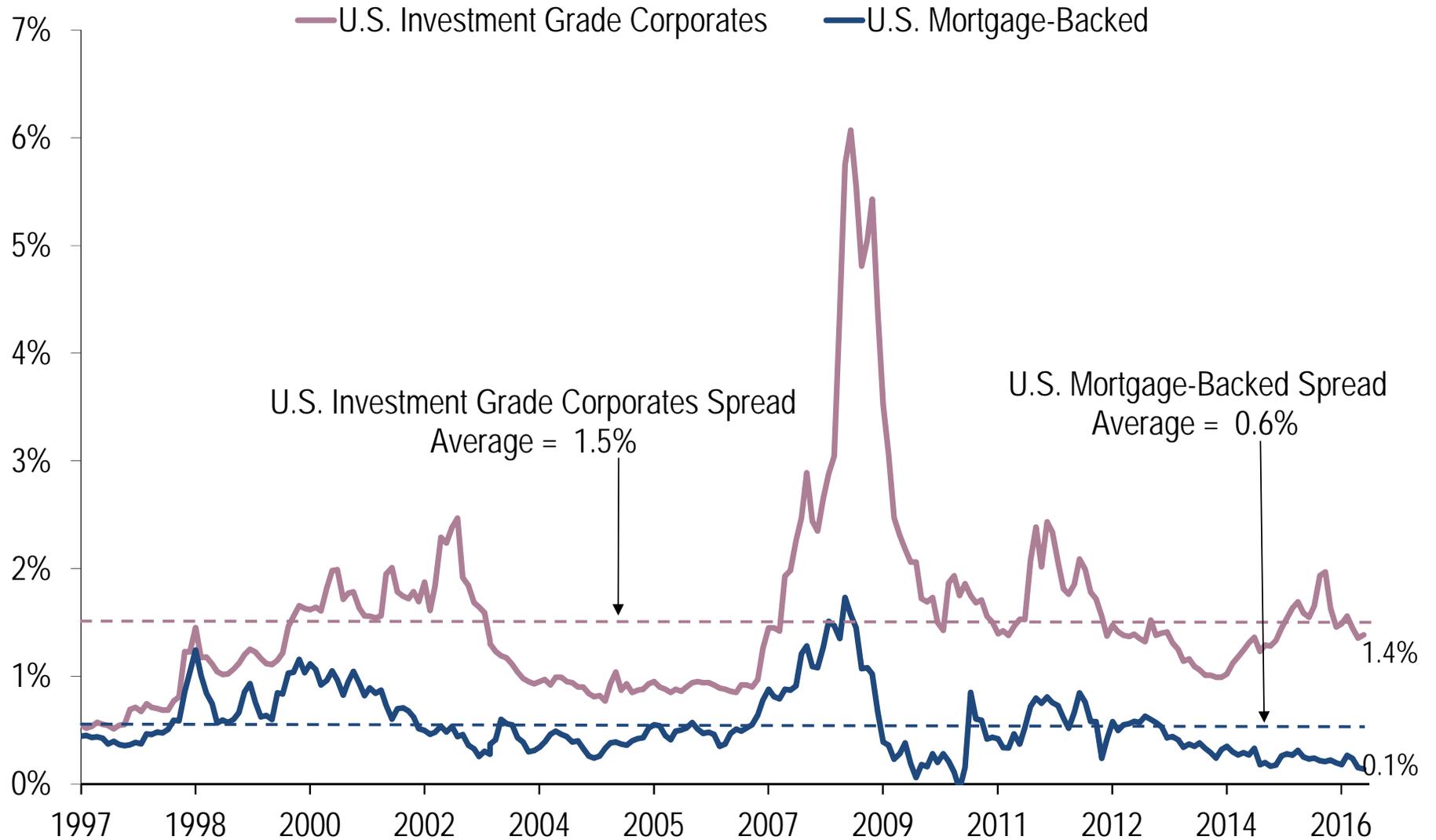
Expectations for Fed Funds Rate¹



¹ Source: Federal Reserve.



Credit Spreads vs. Treasury Bonds



Pros and Cons of Investing in the Treasury Pool

Pros

- Liquidity – The Treasury Pool primarily consists of very liquid underlying securities. Additionally, investors in the Treasury Pool benefit from being part of a larger pool of assets, as not all investors need liquidity at the same time.
- Stability – The Treasury Pool operates on a “dollar in, dollar out” basis, offering a stable NAV to its investors.
- Lower cost – The Treasury Pool’s all-in fee is 8 basis points, which is much lower than other alternatives.
- Less complex – While the Board should continue to monitor the appropriateness of the Treasury Pool, investing in the Pool does not require the creation and monitoring of an internal investment program.

Cons

- Yield – Alternative investment options could generate additional return after fees, but would likely need to take on greater risk (credit or duration risk), likely would not offer a stable NAV, and may be less liquid.

Summary

- Based on the investment goals and regulatory constraints of the Trust Fund, we believe investing the assets in the Treasury Pool is prudent.
- The Board has a fiduciary duty to periodically review and evaluate the appropriateness and the performance of the Treasurer's investment portfolio and the Board should periodically review alternative investment options.
- Based on the following factors, we believe the Treasury Pool is currently a prudent investment option for the Trust Fund. However, these factors should be considered in the future when evaluating the Treasury Pool vs. alternative options:
 - Strategy/profile of the Treasury Pool
 - Still aligned with the goals of the Trust Fund?
 - Office of the Treasurer and Tax Collector staff
 - Has the Treasurer lost key personnel, inhibiting their ability to prudently manage the investment pool?
 - Market conditions
 - If interest rates are expected to remain flat or decline and/or credit spreads surpass historical levels, the potential for superior returns may exist in alternative investment options.

Recommendations

- Continue to utilize the Treasury Pool for the Trust Fund assets, which meets the Government Code and includes a formal investment policy reviewed and monitored by the Treasury Oversight Committee.
- If the Trust Fund assets are invested in the Treasury Pool,
 - The Board should receive quarterly updates on the performance of the Treasury Pool.
 - The Board should receive an annual update from Treasurer and Tax Collector staff.
- At least every three years, review and evaluate the appropriateness of the Treasurer's investment portfolio and review alternative investment options.
 - Material changes in the strategy of the Treasury Pool, Treasurer and Tax Collector staff, or market conditions would require a more timely review.

GOVERNMENT CODE

SECTION 53600-53610

53600. As used in this article, "local agency" means county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

53600.3. Except as provided in subdivision (a) of Section 27000.3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

53600.5. 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.

53600.6. The Legislature hereby finds that the solvency and creditworthiness of each individual local agency can impact the solvency and creditworthiness of the state and other local agencies within the state. Therefore, to protect the solvency and creditworthiness of the state and all of its political subdivisions, the Legislature hereby declares that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern.

53601. This section shall apply to a local agency that is a city, a district, or other local agency that does not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body. However, Section 53635 shall apply to all local agencies that pool money in deposits or investments with other local agencies that have separate governing bodies. The legislative body of a local agency having moneys in a sinking fund or moneys in its treasury not required for the immediate needs of the

local agency may invest any portion of the moneys that it deems wise or expedient in those investments set forth below. A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered, or nonregistered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisers, consultants, or managers using the agency's funds, by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery.

For purposes of this section, "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment:

(a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

(b) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

(c) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

(d) Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

(e) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

(f) Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

(g) Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days' maturity or 40 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 30 percent of the agency's moneys may be invested in the bankers' acceptances of any one commercial bank pursuant to this section.

This subdivision does not preclude a municipal utility district

from investing moneys in its treasury in a manner authorized by the Municipal Utility District Act (Division 6 (commencing with Section 11501) of the Public Utilities Code).

(h) Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):

(1) The entity meets the following criteria:

(A) Is organized and operating in the United States as a general corporation.

(B) Has total assets in excess of five hundred million dollars (\$500,000,000).

(C) Has debt other than commercial paper, if any, that is rated "A" or higher by an NRSRO.

(2) The entity meets the following criteria:

(A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.

(B) Has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.

(C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25 percent of their moneys in eligible commercial paper. Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635.

(i) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or a person with investment decisionmaking authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

(j) (1) Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.

(2) Investments in repurchase agreements may be made, on an investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that

underlie 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 quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

(3) Reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met:

(A) The security to be sold using a reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale.

(B) The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio.

(C) The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

(D) Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty using a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

(4) (A) Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security may be made only upon prior approval of the governing body of the local agency and shall be made only with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency.

(B) For purposes of this chapter, "significant banking relationship" means any of the following activities of a bank:

(i) Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, warrants, notes, or other evidence of indebtedness.

(ii) Financing of a local agency's activities.

(iii) Acceptance of a local agency's securities or funds as deposits.

(5) (A) "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and 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.

(B) "Securities," for purposes of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity.

(C) "Reverse repurchase agreement" means a sale of securities by the local agency pursuant to an agreement by which the local agency

will repurchase the securities on or before a specified date and includes other comparable agreements.

(D) "Securities lending agreement" means an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

(E) For purposes of this section, the base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.

(F) For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.

(k) Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated "A" or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.

(1) (1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company's board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.

(2) Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.).

(3) If investment is in shares issued pursuant to paragraph (1), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000).

(4) If investment is in shares issued pursuant to paragraph (2), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

(B) Retained an investment adviser registered or exempt from

registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

(5) The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include commission that the companies may charge and shall not exceed 20 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 10 percent of the agency's funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph (1).

(m) Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

(n) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

(o) A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond of a maximum of five years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by an NRSRO and rated in a rating category of "AA" or its equivalent or better by an NRSRO. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section.

(p) Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.

(3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

(q) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated "AA" or better by an NRSRO and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.

53601.1. The authority of a local agency to invest funds pursuant to Section 53601 includes, in addition thereto, authority to invest in financial futures or financial option contracts in any of the investment categories enumerated in that section.

53601.2. As used in this article, "corporation" includes a limited liability company.

53601.5. The purchase by a local agency of any investment authorized pursuant to Section 53601 or 53601.1, not purchased directly from the issuer, shall be purchased either from an institution licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association (as defined by Section 5102 of the Financial Code) or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank.

53601.6. (a) A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in inverse floaters, range notes, or mortgage-derived, interest-only strips.

(b) A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in any security that could result in zero interest accrual if held to maturity. However, a local agency may hold prohibited instruments until their maturity dates. The limitation in this subdivision shall not apply to local agency investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) that are authorized for investment pursuant to subdivision (1) of Section 53601.

53601.8. Notwithstanding Section 53601 or any other provision of this code, a local agency that has the authority under law to invest funds, at its discretion, may invest a portion of its surplus funds in deposits at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that

assists in the placement of deposits. The following conditions shall apply:

(a) The local agency shall choose a nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the "selected" depository institution.

(b) The selected depository institution may use a private sector entity to help place local agency deposits with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States and are within the network used by the private sector entity for this purpose.

(c) Any private sector entity used by a selected depository institution to help place its local agency deposits shall maintain policies and procedures requiring both of the following:

(1) The full amount of each deposit placed pursuant to subdivision (b) and the interest that may accrue on each such deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

(2) Every depository institution where funds are placed shall be capitalized at a level that is sufficient, and be otherwise eligible, to receive such deposits pursuant to regulations of the Federal Deposit Insurance Corporation or the National Credit Union Administration, as applicable.

(d) The selected depository institution shall serve as a custodian for each such deposit.

(e) On the same date that the local agency's funds are placed pursuant to subdivision (b) by the private sector entity, the selected depository institution shall receive an amount of insured deposits from other financial institutions that, in total, are equal to, or greater than, the full amount of the principal that the local agency initially deposited through the selected depository institution pursuant to subdivision (b).

(f) Notwithstanding subdivisions (a) to (e), inclusive, a credit union shall not act as a selected depository institution under this section or Section 53635.8 unless both of the following conditions are satisfied:

(1) The credit union offers federal depository insurance through the National Credit Union Administration.

(2) The credit union is in possession of written guidance or other written communication from the National Credit Union Administration authorizing participation of federally insured credit unions in one or more deposit placement services and affirming that the moneys held by those credit unions while participating in a deposit placement service will at all times be insured by the federal government.

(g) It is the intent of the Legislature that this section shall not restrict competition among private sector entities that provide placement services pursuant to this section.

(h) The deposits placed pursuant to this section and Section 53635.8 shall not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose.

(i) Purchases of certificates of deposit pursuant to this section, Section 53635.8, and subdivision (i) of Section 53601 shall not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose.

(j) Excluding purchases of certificates of deposit pursuant to this section, no more than 10 percent of the agency's funds that may be invested for this purpose may be submitted, pursuant to subdivision (b), to any one private sector entity that assists in the placement of deposits with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are

located in the United States, for the local agency's account.

(k) This section shall remain in effect only until January 1, 2017, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2017, deletes or extends that date.

53601.8. Notwithstanding Section 53601 or any other provision of this code, a local agency that has the authority under law to invest funds may, at its discretion, invest a portion of its surplus funds in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit, provided that the purchases of certificates of deposit pursuant to this section, Section 53635.8, and subdivision (i) of Section 53601 do not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose. The following conditions shall apply:

(a) The local agency shall choose a nationally or state-chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the "selected" depository institution.

(b) The selected depository institution may submit the funds to a private sector entity that assists in the placement of certificates of deposit with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States for the local agency's account.

(c) The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

(d) The selected depository institution shall serve as a custodian for each certificate of deposit that is issued with the placement service for the local agency's account.

(e) At the same time the local agency's funds are deposited and the certificates of deposit are issued, the selected depository institution shall receive an amount of deposits from other commercial banks, savings banks, savings and loan associations, or credit unions that, in total, are equal to, or greater than, the full amount of the principal that the local agency initially deposited through the selected depository institution for investment.

(f) Notwithstanding subdivisions (a) to (e), inclusive, no credit union may act as a selected depository institution under this section or Section 53635.8 unless both of the following conditions are satisfied:

(1) The credit union offers federal depository insurance through the National Credit Union Administration.

(2) The credit union is in possession of written guidance or other written communication from the National Credit Union Administration authorizing participation of federally insured credit unions in one or more certificate of deposit placement services and affirming that the moneys held by those credit unions while participating in a deposit placement service will at all times be insured by the federal government.

(g) It is the intent of the Legislature that this section shall not restrict competition among private sector entities that provide placement services pursuant to this section.

(h) This section shall become operative on January 1, 2017.

53602. The legislative body shall invest only in notes, bonds, bills, certificates of indebtedness, warrants, or registered warrants which are legal investments for savings banks in the State, provided, that the board of supervisors of a county may, by a four-fifths vote thereof, invest in notes, warrants or other evidences of indebtedness of public districts wholly or partly within the county, whether or not such notes, warrants, or other evidences of indebtedness are legal investments for savings banks.

53603. The legislative body may make the investment by direct purchase of any issue of eligible securities at their original sale or after they have been issued.

53604. The legislative body may sell, or exchange for other eligible securities, and reinvest the proceeds of, the securities purchased.

53605. From time to time, the legislative body shall sell the securities so that the proceeds may be applied to the purposes for which the original purchase money was placed in the sinking fund or the treasury of the local agency.

53606. The bonds purchased, which were issued by the purchaser, may be canceled either in satisfaction or sinking fund obligations or otherwise. When canceled, they are no longer outstanding, unless in its discretion, the legislative body holds them uncanceled. While held uncanceled, the bonds may be resold.

53607. The authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

53608. The legislative body of a local agency may deposit for safekeeping with a federal or state association (as defined by Section 5102 of the Financial Code), a trust company or a state or national bank located within this state or with the Federal Reserve Bank of San Francisco or any branch thereof within this state, or with any Federal Reserve bank or with any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System, the bonds, notes, bills, debentures, obligations, certificates of indebtedness, warrants, or other evidences of indebtedness in which the money of the local

agency is invested pursuant to this article or pursuant to other legislative authority. The local agency shall take from such financial institution a receipt for securities so deposited. The authority of the legislative body to deposit for safekeeping may be delegated by the legislative body to the treasurer of the local agency; the treasurer shall not be responsible for securities delivered to and receipted for by a financial institution until they are withdrawn from the financial institution by the treasurer.

53609. Notwithstanding the provisions of this chapter or any other provisions of this code, funds held by a local agency pursuant to a written agreement between the agency and employees of the agency to defer a portion of the compensation otherwise receivable by the agency's employees and pursuant to a plan for such deferral as adopted by the governing body of the agency, may be invested in the types of investments set forth in Sections 53601 and 53602 of this code, and may additionally be invested in corporate stocks, bonds, and securities, mutual funds, savings and loan accounts, credit union accounts, life insurance policies, annuities, mortgages, deeds of trust, or other security interests in real or personal property. Nothing herein shall be construed to permit any type of investment prohibited by the Constitution.

Deferred compensation funds are public pension or retirement funds for the purposes of Section 17 of Article XVI of the Constitution.

53610. (a) For purposes of this section, "Proposition 1A receivable" means the right to payment of moneys due or to become due to a local agency, pursuant to clause (iii) of subparagraph (B) of paragraph (1) of subdivision (a) of Section 25.5 of Article XIII of the California Constitution and Section 100.06 of the Revenue and Taxation Code.

(b) Notwithstanding any other law, a local agency may purchase, with its revenue, Proposition 1A receivables sold pursuant to Section 53999.

(c) A purchaser of Proposition 1A receivables pursuant to this section shall not offer them for sale pursuant to Section 6588.

**CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE TREASURER & TAX COLLECTOR**

INVESTMENT POLICY

Effective May 2016

1.0 Policy

It is the policy of the Office of the Treasurer & Tax Collector of the City and County of San Francisco (Treasurer's Office) to invest public funds in a manner which will preserve capital, meet the daily cash flow demands of the City, and provide a market rate of return while conforming to all state and local statutes governing the investment of public funds.

2.0 Scope

This investment policy applies to all funds over which the Treasurer's Office has been granted fiduciary responsibility and direct control for their management.

3.0 Prudence

The standard of prudence to be used by the Treasurer's Office shall be the Prudent Investor Standard as set forth by California Government Code, Section 53600.3 and 27000.3. The Section reads as follows: The Prudent Investor Standard states that 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 Treasurer's Office, 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 Treasurer's Office.

This standard of prudence shall be applied in the context of managing those investments that fall under the Treasurer's direct control. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 Objective

The primary objectives, in priority order, of the Treasurer's Office's investment activities shall be:

4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the Treasurer's Office shall be undertaken in a manner that seeks to ensure the preservation of capital. To attain this objective, the Treasurer's Office will diversify its investments.

4.2 Liquidity: The Treasurer's Office investment portfolio will remain sufficiently liquid to enable the Treasurer's Office to meet cash flow needs which might be reasonably anticipated.

4.3 Return on Investments: The portfolio shall be designed with the objective of generating a market rate of return without undue compromise of the first two objectives.

5.0 Delegation of Authority

The Treasurer of the City and County of San Francisco (Treasurer) is authorized by Charter Section 6.106 to invest funds available under California Government Code Title 5, Division 2, Part 1, Chapter 4, Article 1. The Treasurer shall submit any modification to this Investment Policy to the Treasury Oversight Committee members within five (5) working days of the adoption of the change.

6.0 Authorized Broker/Dealer Firms

The City seeks to employ a fair and unbiased broker-dealer selection process, which culminates in an array of medium to large-sized firms that provide the best investment opportunities and service to the City.

The Treasurer's Office will evaluate and classify broker-dealers based on the qualifications of the firm and firm's assigned individual. Approved broker-dealers will be evaluated and may be classified into one of the following categories:

FULL ACCESS – Broker-dealers will have significant opportunity to present investment ideas to the investment team.

LIMITED ACCESS – Broker-dealers will have limited opportunity to present investment ideas to the investment team.

All others may apply for Provisional status appointment. Provisional appointments will be made for:

- (1) Applicants who have changed firms;
- (2) Applicants (firm and individual) who were not approved by the Treasurer's Office in the past year; and
- (3) Broker-dealers who have been classified as Limited Access, but are seeking Full Access status.

Broker-dealers, who are granted Provisional status, will be treated as Full Access firms for a limited time period of up to six months. During the Provisional status period, the investment team will evaluate the applicant and provide a determination of status (Full Access, Limited Access or Not Approved). Broker-dealers may reapply for Provisional status every two years. A limited number of broker-dealers will be granted Provisional status concurrently.

All broker-dealers are encouraged to apply for consideration. All applicants will be evaluated and classified based on the qualifications of the firm and the firm's assigned individual. A score will be assigned to each applicant and will serve as the sole determinant for Full Access, Limited Access, or Not-Approved status.

All approved broker-dealers will be re-assessed annually. During the reassessment period, broker-dealers will be sent the City's most recent Investment Policy and are expected to respond with a policy acknowledgement letter, updated profile information and a completed questionnaire.

All securities shall be purchased and sold in a competitive environment.

The Treasurer's Office will not do business with a firm which has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the Treasurer, any member of the Board of Supervisors, or any candidate for those offices.

7.0 Authorized & Suitable Investments

Investments will be made pursuant to the California Government Code (including Section 53601 et seq.) and this investment policy to ensure sufficient liquidity to meet all anticipated disbursements.

Unless otherwise noted, the maximum maturity from the trade settlement date can be no longer than five years.

Types of investment vehicles not authorized by this investment policy are prohibited.

In an effort to limit credit exposure, the Treasurer's Office will maintain Eligible Issuer, Eligible Counterparty and Eligible Money Market lists for security types where appropriate. These lists are intended to guide investment decisions. Investments, at time of purchase, are limited solely to issuers, counterparties and money market funds listed; however, investment staff may choose to implement further restrictions at any time.

The Treasurer's Office shall establish a Credit Committee comprised of the Treasurer, Chief Assistant Treasurer, Chief Investment Officer and additional investment personnel at the Treasurer's discretion. The Committee shall review and approve all eligible issuers and counterparties prior to inclusion on the aforementioned Eligible Issuer and Eligible Counterparty lists. The Committee shall also be charged with determining the collateral securing the City's repurchase agreements.

In the event of a downgrade of the issuer's credit rating below the stated requirements herein, the Credit Committee shall convene and determine the appropriate action.

In addition, the Treasurer's Office shall conduct an independent credit review, or shall cause an independent credit review to be conducted, of the collateralized CD issuers to determine the creditworthiness of the financial institution. The credit review shall include an evaluation of the issuer's financial strength, experience, and capitalization, including, but not limited to leverage and capital ratios relative to benchmark and regulatory standards (See Section 7.4). The following policy shall govern unless a variance is specifically authorized by the Treasurer and reviewed by the Treasury Oversight Committee pursuant to Section 5.0.

7.1 U.S. Treasuries

United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
100% of the portfolio value	100%	100%	5 years

7.2 Federal Agencies

Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
100% of the portfolio value	100%	100%	5 years

7.3 State and Local Government Agency Obligations

The Treasurer's Office may purchase bonds, notes, warrants, or other evidences of indebtedness of any local or State agency within the 50 United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or State, or by a department, board, agency, or authority of the local agency or State.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
20% of the portfolio value	5%	No Limit	5 years

Issuer Minimum Credit Rating: Issuers must possess either a short-term or long-term credit rating (dependent upon maturity length) of the second highest ranking or better (irrespective of +/-) from at least one NRSRO (Nationally Recognized Statistical Rating Organization). This limitation applies to all local and State agencies within the 50 United States with the exception of the State of California.

7.4 Public Time Deposits (Term Certificates Of Deposit)

The Treasurer’s Office may invest in non-negotiable time deposits (CDs) that are FDIC insured or fully collateralized in approved financial institutions.

The Treasurer’s Office will invest in FDIC-insured CDs only with those firms having at least one branch office within the boundaries of the City and County of San Francisco.

Collateralized CDs are required to be fully collateralized with 110% of the type of collateral authorized in California Government Code, Section 53651 (a) through (i). The Treasurer’s Office, at its discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance. The Treasurer’s Office shall have a signed agreement with any depository accepting City funds per Government Code Section 53649.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
No Limit	None	N/A	13 months

Issuer Minimum Credit Rating (applies to collateralized CDs only): Maintenance of the minimum standards for “well-capitalized” status as established by the Federal Reserve Board. The current standards are as follows:

- Tier 1 risk-based capital ratio of 8% or greater
- Combined Tier 1 and Tier 2 capital ratio of 10% or greater
- Leverage ratio of 5% or greater

Failure to maintain minimum standards may result in early termination, subject to the discretion of the Treasurer’s Office.

7.5 Negotiable Certificates Of Deposit / Yankee Certificates Of Deposit

Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank. Yankee certificates of deposit are negotiable instruments that are issued by a branch of a foreign bank.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
30% of the portfolio value	No Limit	N/A	5 years

Issuer Minimum Credit Rating: Issuers must possess either a short-term or long-term credit rating (dependent upon maturity length) of the second highest ranking or better (irrespective of +/-) from at least one NRSRO.

7.6 Bankers Acceptances

Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
40% of the portfolio value	No Limit	No Limit	180 days

Issuer Minimum Credit Rating: None

7.7 Commercial Paper

Obligations issued by a corporation or bank to finance short-term credit needs, such as accounts receivable and inventory, which may be unsecured or secured by pledged assets.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
25% of the portfolio value	10%	None	270 days

Issuer Minimum Credit Rating: Issuers must possess a short-term credit rating of the second highest ranking or better (irrespective of +/-) from at least one NRSRO.

7.8 Medium Term Notes

Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state, and operating within the U.S.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
25% of the portfolio value	10%	5%	24 months

Issuer Minimum Credit Rating: Issuers must possess either a short-term or long-term credit rating (dependent upon maturity length) of the second highest ranking or better (irrespective of +/-) from at least one NRSRO.

7.9 Repurchase Agreements

To the extent that the Treasurer’s Office utilizes this investment vehicle, said collateral shall be delivered to a third party custodian, so that recognition of ownership of the City and County of San Francisco is perfected.

Type of collateral	Allocation Maximum	Issuer Limit Maximum	Maturity/Term Maximum
Government securities	No Limit	N/A	1 year
Securities permitted by CA Government Code, Sections 53601 and 53635	10%	N/A	1 year

7.10 Reverse Repurchase and Securities Lending Agreements

This procedure shall be limited to occasions when the cost effectiveness dictates execution, specifically to satisfy cash flow needs or when the collateral will secure a special rate. A reverse repurchase agreement shall not exceed 45 days; the amount of the agreement shall not exceed \$75MM; and the offsetting purchase shall have a maturity not to exceed the term of the repo.

7.11 Money Market Funds

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.).

Fund Type	Allocation Maximum	Issuer Limit Maximum	Percentage of Fund’s Net Assets Maximum	Maturity/Term Maximum
Institutional Government Funds	10% of total Pool assets	N/A	5%	N/A (397-day mandated final maturity maximum)
Institutional Prime Funds	5% of total Pool assets	N/A	N/A	60-day maximum final maturity

Issuer Minimum Credit Rating: Fund rating must be rated in at least the second highest rating category from two NRSRO or independent investment research firms (e.g. Morningstar or Lipper).

7.12 Local Agency Investment Fund (LAIF)

Investments in LAIF, a California state investment fund available to California municipalities, are authorized.

7.13 Supranationals*

United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by:

- International Bank for Reconstruction and Development,
- International Finance Corporation, or
- Inter-American Development Bank,

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
5%	None	None	5 years

Issuer Minimum Credit Rating: Issuers must possess either a short-term or long-term credit rating (dependent upon maturity length) of the second highest ranking or better (irrespective of +/-) from at least one NRSRO.

* Effective as of January 1, 2015, as consistent with State Law.

8.0 Interest and Expense Allocations

The costs of managing the investment portfolio, including but not limited to: investment management; accounting for the investment activity; custody of the assets, managing and accounting for the banking; receiving and remitting deposits; oversight controls; and indirect and overhead expenses are charged to the investment earnings based upon actual labor hours worked in respective areas. Costs of these respective areas are accumulated and charged to the Pooled Investment Fund on a quarterly basis, with the exception of San Francisco International Airport costs which are charged directly through a work order.

The San Francisco Controller allocates the net interest earnings of the Pooled Investment Fund. The earnings are allocated monthly based on average balances.

9.0 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer's Office shall be conducted on a delivery-versus-payment (DVP) basis pursuant to approved custodial

safekeeping agreements. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

10.0 Deposit and Withdrawal of Funds

California Government Code Section 53684 et seq. provides criteria for outside local agencies, where the Treasurer does not serve as the agency's treasurer, to invest in the County's Pooled Investment Fund, subject to the consent of the Treasurer. Currently, no government agency outside the geographical boundaries of the City and County of San Francisco shall have money invested in City pooled funds.

The Treasurer will honor all requests to withdraw funds for normal cash flow purposes that are approved by the San Francisco Controller. Any requests to withdraw funds for purposes other than cash flow, such as for external investing, shall be subject to the consent of the Treasurer. In accordance with California Government Code Sections 27136 et seq. and 27133(h) et seq., such requests for withdrawals must first be made in writing to the Treasurer. These requests are subject to the Treasurer's consideration for the stability and predictability of the Pooled Investment Fund, or the adverse effect on the interests of the other depositors in the Pooled Investment Fund. Any withdrawal for such purposes shall be at the value shown on the Controller's books as of the date of withdrawal.

11.0 Limits on Receipt of Honoraria, Gifts and Gratuities

In accordance with California Government Code Section 27133(d) et seq., this Investment Policy hereby establishes limits for the Treasurer, individuals responsible for management of the portfolios, and members of the Treasury Oversight Committee on the receipt of honoraria, gifts and gratuities from advisors, brokers, dealers, bankers or other persons with whom the Treasurer conducts business. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of those limits must report the gifts, dates and firms to the Treasurer and complete the appropriate State disclosure.

These limits may be in addition to the limits set by a committee member's own agency, by state law, or by the California Fair Political Practices Commission. Members of the Treasury Oversight Committee also must abide by the following sections of the Treasurer's Office Statement of Incompatible Activities: Section III(A)(I)(a), (b) and (c) entitled "Activities that Conflict with Official Duties," and Section III(C) entitled "Advance Written Determination".

12.0 Reporting

In accordance with the provisions of California Government Code Section 53646, which states that the Treasurer may render a quarterly report or a monthly report on the status of the investment portfolio to the Board of Supervisors, Controller and Mayor; the Treasurer regularly submits a monthly report. The report includes the investment types, issuer, maturity date, par value, and dollar amount invested; market value as of the date of the report and the source of the valuation; a statement of compliance with the investment policy or an explanation for non-compliance; and a statement of the ability or inability to meet expenditure requirements for six months, as well as an explanation of why moneys will not be available if that is the case.

13.0 Social Responsibility

In addition to and subordinate to the objectives set forth in Section 4.0 herein, investment of funds should be guided by the following socially responsible investment goals when investing in corporate securities and depository institutions. Investments shall be made in compliance with the forgoing socially responsible investment goals to the extent that such investments achieve substantially equivalent safety, liquidity and yield compared to investments permitted by state law.

13.1 Social and Environmental Concerns

Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation. Investments are discouraged in entities that manufacture tobacco products, firearms, or nuclear weapons. In addition, investments are encouraged in entities that offer banking products to serve all members of the local community, and investments are discouraged in entities that finance high-cost check-cashing and deferred deposit (payday-lending) businesses. Prior to making investments, the Treasurer's Office will verify an entity's support of the socially responsible goals listed above through direct contact or through the use of a third party such as the Investors Responsibility Research Center, or a similar ratings service. The entity will be evaluated at the time of purchase of the securities.

13.2 Community Investments

Investments are encouraged in entities that promote community economic development. Investments are encouraged in entities that have a demonstrated involvement in the development or rehabilitation of low income affordable housing, and have a demonstrated commitment to reducing predatory mortgage lending and increasing the responsible servicing of mortgage loans. Securities investments are encouraged in financial institutions that have a Community Reinvestment Act (CRA) rating of either Satisfactory or Outstanding, as well as financial institutions that are designated as a Community Development Financial Institution (CDFI) by the United States Treasury Department, or otherwise demonstrate commitment to community economic development.

13.3 City Ordinances

All depository institutions are to be advised of applicable City contracting ordinances, and shall certify their compliance therewith, if required.

14.0 Treasury Oversight Committee

A Treasury Oversight Committee was established by the San Francisco Board of Supervisors in Ordinance No. 316-00. The duties of the Committee shall be the following:

(a) Review and monitor the investment policy described in California Government Code Section 27133 and prepared annually by the Treasurer.

(b) Cause an annual audit to be conducted to determine the Treasurer's compliance with California Government Code Article 6 including Sections 27130 through 27137 and City Administrative Code Section 10.80-1. The audit may examine the structure of the investment portfolio and risk. This audit may

be a part of the County Controller's usual audit of the Treasurer's Office by internal audit staff or the outside audit firm reviewing the Controller's Annual Report.

(c) Nothing herein shall be construed to allow the Committee to direct individual decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the Treasurer. (See California Government Code, Section 27137.)

APPENDIX

Glossary

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASK/OFFER: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The CAFR is the City's official annual financial report. It consists of three major sections: introductory, financial, and statistical. The introductory section furnishes general information on the City's structure, services, and environment. The financial section contains all basic financial statements and required supplementary information, as well as information on all individual funds and discretely presented component units not reported separately in the basic financial statements. The financial section may also include supplementary information not required by GAAP. The statistical section provides trend data and nonfinancial data useful in interpreting the basic financial statements and is especially important for evaluating economic condition.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DEPOSITORY INSTITUTIONS: These institutions hold City and County moneys in the forms of certificates of deposit (negotiable or term), public time deposits and public demand accounts.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FDIC DEPOSIT INSURANCE COVERAGE: The FDIC is an independent agency of the United States government that protects against the loss of insured deposits if an FDIC-insured bank or savings association fails. Deposit insurance is backed by the full faith and credit of the United States government. Since the FDIC was established, no depositor has ever lost a single penny of FDIC-insured funds. FDIC insurance covers funds in deposit accounts, including checking and savings accounts, money market deposit accounts and certificates of deposit (CDs). FDIC insurance does not, however, cover other financial products and services that insured banks may offer, such as stocks, bonds, mutual fund shares, life insurance policies, annuities or municipal securities. There is no need for depositors to apply for FDIC insurance or even to request it. Coverage is automatic. To ensure funds are fully protected, depositors should understand their deposit insurance coverage limits. The FDIC provides separate insurance coverage for deposits held in different ownership categories such as single accounts, joint accounts, Individual Retirement Accounts (IRAs) and trust accounts.

Basic FDIC Deposit Insurance Coverage Limits*

Single Accounts (owned by one person) \$250,000 per owner

Joint Accounts (two or more persons) \$250,000 per co-owner

IRAs and certain other retirement accounts \$250,000 per owner

Trust Accounts \$250,000 per owner per beneficiary subject to specific limitations and requirements**

*The financial reform bill, officially named the Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010, made the \$250,000 FDIC coverage limit permanent.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL FUNDS RATE: The rate of interest that depository institutions lend monies overnight to other depository institutions. Also referred to as the overnight lending rate. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): Freddie Mac's mission is to provide liquidity, stability and affordability to the housing market. Congress defined this mission in (their) 1970 charter. Freddie Mac buys mortgage loans from banks, thrifts and other financial intermediaries, and re-sells these loans to investors, or keeps them for their own portfolio, profiting from the difference between their funding costs and the yield generated by the mortgages.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

GOVERNMENT SECURITIES: Obligations of the U.S. Government and its agencies and instrumentalities.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

NRSRO: Nationally Recognized Statistical Rating Organization; Credit rating agencies that are registered with the SEC. Such agencies provide an opinion on the creditworthiness of an entity and the financial obligations issued by an entity.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PAR VALUE: The principal amount of a bond returned by the maturity date.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PUBLIC TIME DEPOSITS (Term Certificates Of Deposit): Time deposits are issued by depository institutions against funds deposited for a specified length of time. Time deposits include instruments such as deposit notes. They are distinct from certificates of deposit (CDs) in that interest payments on time deposits are calculated in a manner similar to that of corporate bonds whereas interest payments on CDs are calculated similar to that of money market instruments.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15(C)3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.