

# REDWOOD COAST ENERGY AUTHORITY INVESTMENT POLICY

## 1.0 PURPOSE

The purpose of this Investment Policy is to provide objectives and guidelines to Redwood Coast Energy Authority (RCEA) officers and employees for the management of cash, deposits and investments (together, “funds”) at RCEA. This Policy covers all funds and investment activities under the direct authority of RCEA, as set forth in the California Government Code, Sections 53600 et seq.

## 2.0 OBJECTIVES

When managing funds, RCEA’s primary objectives, in order of importance, shall be to safeguard the principal of the funds, meet the liquidity needs of RCEA, and achieve a return on investment on funds in RCEA’s control.

- Safety. Safety of principal is the foremost objective of cash and investment management activities. The investment of funds shall be undertaken in a manner that seeks to ensure the preservation of principal.
- Liquidity. The funds shall remain sufficiently liquid to meet all operating needs that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the investment of funds in deposits or instruments available on demand is recommended.
- Return on Investment. The deposit and investment portfolio shall be designed with the objective of attaining market rate of return throughout the economic cycle while considering risk and liquidity constraints. The return on deposits and investments is of secondary importance compared to the safety and liquidity objectives described above.

## 3.0 STANDARD OF CARE

RCEA will manage funds in accordance with the Prudent Investor Standard<sup>1</sup>.

## 4.0 DELEGATION OF AUTHORITY<sup>2</sup>

The responsibility to manage funds is delegated to the Treasurer of RCEA. The Treasurer may appoint Deputy Treasurers as the Treasurer deems necessary and convenient for the prompt and faithful discharge of its duties to invest and reinvest the funds of RCEA.

---

<sup>1</sup> Government Code §53600.3.1: “Governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds 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, 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.”

<sup>2</sup> Government Code §53607

RCEA may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of RCEA's investment portfolio in a manner consistent with this Policy. External investment advisers may also be granted discretion to purchase and sell investment securities in accordance with this Policy. The Treasurer will review this Policy annually and any changes will be submitted to the RCEA Board of Directors for approval.

## **5.0 ETHICS AND CONFLICT OF INTEREST**

All participants in the investment process shall act as custodians of the public trust. The investment portfolio is subject to public review and evaluation and thus all involved in the investment process shall refrain from personal business activity that could create a conflict of interest or the appearance of a conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Employees and investment officials shall disclose to RCEA's General Counsel or designee any material interests in financial institutions with which they conduct business, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of RCEA. Employees and officers shall not accept honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other person with whom RCEA conducts business.

## **6.0 AUTHORIZED INVESTMENTS<sup>3</sup>**

Within the investments permitted by code, RCEA seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this Policy and code, the more restrictive parameters will take precedence. Percentage holding limits and minimum credit quality requirements listed in this section apply at the time the security is purchased.

- 6.1 Deposits at Bank(s)<sup>4</sup>.** Funds may be invested in non-interest-bearing depository accounts to meet RCEA's operating and collateral needs. Funds not needed for these purposes may be invested in interest bearing depository accounts or Federal Deposit Insurance Corporation (FDIC) insured certificates of deposit with maturities not to exceed five years. Banks must collateralize RCEA deposits beyond the FDIC insured amount. Banks eligible to receive deposits must be federally or state chartered and have a rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory authority. The Treasurer will monitor the credit quality of eligible banks to ensure the safety of RCEA deposits.

---

<sup>3</sup> Government Code §§53600 et seq.

<sup>4</sup> Government Code §53635.2

- 6.2 Money Market Funds**<sup>5</sup>. Funds may be invested in money market funds that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940.
- 6.3 Local Agency Investment Fund (LAIF)**<sup>6</sup>. Funds may be invested in the Local Agency Investment Fund. The LAIF was established by the California State Treasurer for the benefit of local agencies.
- 6.4 California Joint Power Authority (JPA) Investment Pools**<sup>7</sup>. Funds may be invested in JPAs, such as the California Cooperative Liquid Assets Securities System (CA CLASS), and CalTRUST, that offer pooled investment options.
- 6.5 US Treasury Obligations**. Funds may be directly invested in United States Treasury obligations and other government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest with a term to maturity not exceeding five (5) years. There are not limits on the dollar amount or percentage that RCEA may invest in U.S. Treasuries.
- 6.6 Federal Agency Securities**. Funds may be directly invested in Federal Agency Securities 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. There are no limits on the dollar amount or percentage that RCEA may invest in Federal Agency or Government-Sponsored Enterprises with a term to maturity not exceeding five (5) years. No more than 10% of the portfolio may be invested in any single Agency/Enterprise, and the maximum percent of Agency callable securities in the portfolio shall be 10%. Federal agency and GSE obligations must be rated in a rating category of AA or equivalent or better.
- 6.7 Municipal Securities** Funds may be directly invested in municipal securities including obligations of RCEA, the State of California and any local agency within the State of California, provided that:
- The securities are rated in a minimum rating category of “A+” or its equivalent or better by at least one nationally recognized statistical rating organization.
  - No more than 5% of the portfolio may be invested in any single issuer.
  - No more than 20% of the portfolio may be in Municipal Securities.
  - The maximum maturity does not exceed five (5) years.

---

<sup>5</sup> Government Code §53601(I)(2); §53601 (I)(4)

<sup>6</sup> Government Code §§16429 et seq.

<sup>7</sup> Government Code §6500

## 7.0 MANAGEMENT OF INVESTMENTS

**7.1 Prohibited Transactions.**<sup>8</sup> RCEA shall not invest funds in any security that could result in a zero-interest accrual, or less, if held to maturity. The purchase of foreign currency denominated securities is prohibited. Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited. Purchasing or selling securities on margin is prohibited. The use of reverse re-purchase agreements, securities lending or any other form of borrowing or leverage is prohibited.

**7.2 Portfolio Management.** The term to maturity of any funds invested as measured from settlement date to maturity date shall not exceed five (5) years. The Treasurer will allocate funds among authorized investments consistent with the objectives and standards of care outlined in this Policy.

**7.3 Due Diligence.** Prior to the purchase of an investment the persons authorized to make the investments shall assess the market and market prices using information obtained from available sources including investment services, brokers/dealers, and the media.

**7.4 Brokers.** To the extent practicable, the Treasurer shall endeavor to complete investment transactions using a competitive bid process whenever possible. Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of RCEA, except where RCEA utilizes an external investment adviser in which case RCEA may rely on the adviser for selection. Institutions eligible to transact investment business with RCEA include:

- Those licensed by the state as a broker-dealer.
- Members of a federally regulated securities exchange.
- Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
- Nationally or state-chartered banks.
- The Federal Reserve Bank.
- Direct issuers of securities eligible for purchase.

Selection of broker/dealers used by an external investment adviser retained by RCEA will be at the sole discretion of the adviser. Where possible, transactions with brokers/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts shall be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

---

<sup>8</sup> Government Code §53601.6

The Treasurer shall be prohibited from selecting any broker, brokerage firm, or securities firm that has, within any 48-month consecutive 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 any member of the RCEA Board, or any candidate for those offices. The brokers/dealers shall be provided with an acknowledge receipt of this Policy.

**7.5 Losses.** Losses are acceptable on a sale before maturity and may be taken if required to meet the liquidity needs of RCEA or if the reinvestment proceeds will earn an income flow with a present value higher than the present value of the income flow that would have been generated by the original investment, considering any investment loss or foregoing interest on the original investment.

**7.6 Delivery and Safekeeping.** The delivery and safekeeping of all securities shall be made through a third-party custodian when practical and cost effective as determined by the Treasurer and in accordance with Section 53608. The Finance Manager shall review all transaction confirmations for conformity with the original transaction.

**7.7 Risk Management and Diversification.**

**7.7.1 Credit Risk.** Credit risk is the risk that a security or a portfolio will lose some or all its value due to a real or perceived change in the ability of the issuer to repay its debt. RCEA will mitigate credit risk by adopting the following strategies:

- The diversification requirements included in the “Authorized Investments” section of this policy are designed to mitigate credit risk in the portfolio.
- No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.
- RCEA may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or RCEA’s risk preferences.
- If a security owned by RCEA is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps will be taken:
  - Any actions taken related to the downgrade by the investment manager will be communicated to the Treasurer in a timely manner.
  - If a decision is made to retain the security, the credit situation will be monitored and reported to the RCEA Board.

**7.7.2 Market Risk.** Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. RCEA recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. RCEA will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

RCEA further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. RCEA, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- RCEA will maintain a minimum of \$15 million in cash and overnight investments at all times to provide sufficient liquidity for expected disbursements.
- The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.
- The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by RCEA based on RCEA's investment objectives, constraints and risk tolerances.

## 8.0 AUDITS

RCEA's funds shall be subject to a process of independent review by its external auditors. RCEA's external auditors shall review the investment portfolio in connection with the annual audit for compliance with the Investment Policy. The results of the audit shall be reported to the RCEA Board of Directors.

## 9.0 REPORTS

**9.1 Monthly:** The Treasurer will perform a monthly review of the investment function and shall submit a monthly report of all investment transactions to the Board of Directors. Investment transactions are defined as the purchase, sale or exchange of securities.

**9.2 Annually:** The Treasurer will submit an annual report to the Board of Directors and Executive Director within 45 days of the end of a fiscal year providing the following:

9.2.1 A list identifying the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, the market value and source of the market value information; A statement that the portfolio is in compliance with the Investment Policy and in accordance with Government Code Section 53646 or the manner in which the portfolio is not in compliance; and

9.2.2 A statement of RCEA's ability to meet expenditure requirements for the upcoming 12 months.