COUNTY
OF
SAN MATEO

POOLED FUND
INVESTMENT
POLICY

January 2010

TABLE OF CONTENTS

SAN MATEO COUNTY INVESTMENT POLICY

INTRODUCTION

The San Mateo County Treasurer's Investment Policy is reviewed by the Treasury Oversight Committee and approved annually by the County Board of Supervisors, as required by the California Government Code § 53646(a) and § 27133.

It is the policy of the San Mateo County Treasurer ("the Treasurer") to invest public funds in a manner which will provide maximum security of principal invested with secondary emphasis on providing adequate liquidity to pool participants, achieving the highest possible yield while conforming to all applicable statutes and resolutions governing the investment of public funds.

To meet liquidity and long term investing needs, the County has established the County Investment Pool. This fund is suitable for planned expenditures or capital funds. Individual securities in this pool may have maturities longer than two years, but the overall portfolio will have a dollar weighted average maturity of no more than two years.

"Dollar weighted average portfolio maturity" means the average of the weighted sum of the number of years to maturity for all investments in the portfolio. The word "Maturity" refers to the instrument's stated legal final redemption date – not coupon reset, put, or calls dates.

PRUDENCE

When investing, reinvesting, exchanging, and managing public funds in any way, the Treasurer shall act with due professional care, skill, prudence and diligence taking into consideration circumstances then prevailing, including, but not limited to, general economic conditions and anticipated needs of the County and other depositors. This should be accomplished with the care that a prudent person acting in a like capacity would use to safeguard the principal and maintain the liquidity needs of the County and the other depositors.

As outlined in the California Government Code § 27000.3, the standard of prudence to be used by County investment officers shall be the "prudent investor" standard and shall be applied in the context of managing the portfolio. Investment officers shall act in accordance with written procedures and the investment policy, exercise due diligence, report in a timely fashion and implement appropriate controls for adverse development.

CREDIT RATINGS

Credit ratings by one or more nationally recognized securities rating organizations will be applied at the time a security is purchased. In the event of a split rated security, the Treasury Pool does not purchase securities unless the average rating for the security exceeds the minimum rating required. A subsequent downgrade in a security's credit rating will not constitute a violation of this investment policy. All securities purchased shall be regularly monitored and re-evaluated should their ratings be downgraded below the minimum investment grade level required of the Pool and the Treasury Oversight Committee will be notified, in connection with the Pool's monthly reports, of the downgrade of any such securities in the portfolio.

ISSUER CONCENTRATION

No more than 5% of the Fund's market value may be invested in securities of any one issuer, (CP, CDs, BAs, Corporate Notes combined). U.S. Treasury securities and U.S. Government sponsored enterprises (FNMA, FHLMC, FHLB, FFCB,TLGP)are exempt from this restriction as are overnight Repurchase Agreements.

No more than 40% of the Fund's market value may be invested in securities of any one U.S. Government Agency or U.S. Government sponsored enterprise. No more than 20% of the Fund's market value may be invested in callable securities of any one U.S. Government Agency or U.S. Government Sponsored Enterprise.

The percentage limitations set forth above and elsewhere in this Policy shall be measured at the time of the purchase of securities. After purchase, the percentage of the Fund's market value in any one issuer's securities shall be regularly monitored and the Treasury Oversight Committee will be notified, in connection with the Pool's monthly reports, of any instances where the percentage of the Fund's market value in any one issuer's securities exceeds the percentage limitations set forth herein.

OBJECTIVES

The primary objectives of the Treasurer's investment activities are listed below in order of priority:

1. **Safety of Principal** - The Treasurer shall seek to preserve principal and minimize capital losses by minimizing credit risk and market risk as follows:

    <u>Credit Risk</u> - Defined as an issuer(s) ability and willingness to repay interest and principal. Credit risk shall be minimized by diversifying the fund among issues and issuers so that the failure of any one issue or issuer would not result in a significant loss of income or principal to participants. The Pool strives to maintain the highest credit rating at all times. Accordingly, from time to time, the Pool will seek a rating from one of the three leading nationally recognized credit rating organizations (S&P, Moody's, and Fitch).

    <u>Market Risk</u> - Defined as the risk of market value fluctuations due to changes in the general level of interest rates. Because longer-term securities generally have greater market risk than shorter-term securities; market risk will be minimized by establishing the maximum Weighted Average Maturity of the

pool at two years. The maximum allowable maturity for any instrument in the pool at time of purchase is 10 years (Treasuries and Agencies only). Occasional market losses on individual securities are inevitable with active portfolio management and must be considered within the context of the overall investment return.

2. **Liquidity** - The pool attempts to match maturities with capital expenditures and other planned outlays. The nature of the planning process behind these expenditures is relatively predictable and less volatile than is the case of pass-through money. This allows leeway for some of the underlying investments in the County Pool to maintain a somewhat longer duration.

3. **Yield** - The County pool is designed as an income fund to maximize the return on investable funds over various market cycles, consistent with limiting risk and prudent investment principles. Yield will be considered only after the basic requirements of safety and credit quality have been met. The County Pool is managed as an income fund whose purpose is to provide its investors with a reasonably predictable level of income, as opposed to a growth fund or fund measured on the basis of total return.

4. **Leverage** - The Treasurer shall not leverage the County pool through any borrowing collateralized or otherwise secured by cash or securities held unless authorized by this investment policy. Security Lending is authorized by this policy and will be limited to a maximum of 20% of the portfolio.

SECURITY LENDING

Security Lending is a temporary exchange of portfolio assets for acceptable collateral between a lender and an approved borrower. The additional income generated from this transaction can be used to enhance portfolio performance. This process can be summarized in three key steps:

1. The Security Lending agent lends securities from our portfolio to an approved borrower at a negotiated rate. The negotiated rate is dependent upon the level of demand for the securities.

2. The Security Lending agent invests the cash collateral in highly liquid, short duration, high credit quality instruments according to our investment policy.

3. The earnings generated net of rebates from these transactions are split between the third party agent and the County based on the contract agreement.

Our contract with The Bank of New York requires daily reporting of the securities borrowed, the borrowers, and the short term investments made with the collateral. The

County retains the right to recall securities at any given time; cutoffs are 9:30 a.m. eastern standard time for same day recalls of treasuries/agencies and 1:30 p.m. eastern standard time on trade date for corporates. We also require acknowledgement of the County Investment Policy, and check the adherence to that policy daily.

All securities purchased with any funds received as a result of such lending shall be regularly monitored and re-evaluated should their ratings be downgraded below the minimum investment grade level required of the Pool and the Treasury Oversight Committee will be notified, in connection with the Pool's monthly reports, of the downgrade of any such securities in the portfolio. Additionally, the percentage of the Fund's market value in any one issuer's securities shall be regularly monitored and the Treasury Oversight Committee will be notified, in connection with the Pool's monthly reports, of any instances where the percentage of the Fund's market value in any one issuer's securities exceeds the percentage limitations set forth herein.

There are always risks in any financial transaction. The three most common risks in Security Lending are as follows:

1. Borrower Default Risk – Although rare, a borrower may not return a security in a timely manner. To protect against this risk, we require 102% cash collateral, which is marked to market and monitored daily. In the event of borrower default, the Security Lending agent is responsible for replacing the securities or providing the cash value of the securities. In other words, The Bank of New York indemnifies the County of San Mateo against borrower default.

2. Collateral Investment Risk – The value of the securities in which we invest the cash collateral may decline due to fluctuations in interest rates or other market related events. This risk is controlled by investing in a huge investment pool with highly liquid short duration, high credit quality instruments identified in this investment policy.

3. Operational risks – critical operations, such as maintaining the value of the collateral, collecting interest and dividend payments are essential to a smooth running Security Lending operation. Operational risks are the responsibility of the Security Lending agent. We further mitigate this risk by reviewing all transactions and collateral requirements on a daily basis.

AUTHORIZED INVESTMENTS

Subject to the limitations set forth in California Government Code §53600 et seq. which may be amended from time to time, the Treasurer may invest in the following instruments, subject to the limits described in the following sections. As noted previously, all securities purchased shall be regularly monitored and re-evaluated should their ratings be downgraded below the minimum investment grade level required of the Pool and the Treasury Oversight Committee will be notified, in connection with the

Pool’s monthly reports, of the downgrade of any such securities in the portfolio. Decisions regarding the holding of, or the potential sale of, securities are based on a number of factors such as remaining time to maturity, the need for liquidity in the Pool.

1. **U.S. TREASURY SECURITIES**
   United States Treasury bills, notes, bond or certificates of indebtedness, for which the full faith and credit of the United States is pledged for the payment of principal and interest. The maximum maturity of U.S. Treasury Securities is 10 years from the date of purchase.

2. **U.S. GOVERNMENT AGENCY/GSE (GOVERNMENT SPONSORED ENTERPRISE)**
   Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government sponsored enterprise. The maximum maturity for Agency Securities is 10 years from the date of purchase.

3. **COMMERCIAL PAPER**
   At the time of purchase, commercial paper must be rated either A1/P1/F1 or better by at least two of the three nationally recognized rating services (S&P, Moody’s and Fitch) and a long term rating of single A or better when applicable. Eligibility is limited to U.S. organized and operating corporations. Corporations must have assets in excess of $5 Billion, and have an A rating or better on the issuers debt other than commercial paper. Maturities may not exceed 270 days. Purchases may not represent more than 5% of the outstanding paper of the issuing corporation. Purchases of commercial paper will not exceed 40% of the fund’s investable money.

4. **NEGOTIABLE CERTIFICATES OF DEPOSIT**
   Negotiable certificates are a negotiable money market instruments that trade on the open market. At the time of purchase, negotiable certificates of deposit must be rated either A1/P1/F1 or better by at least two of the three nationally recognized rating services (S&P, Moody’s and Fitch) and a long term rating of single A or better when applicable. These certificates must be issued by a U.S. National or State chartered bank or state or federal association (as defined by section 5102 of the California Financial Code) or by a state licensed branch of a foreign bank. Eligible foreign banks must have branches or agencies in the U.S. Issuers must be a corporation with total assets in excess of $5 Billion.

5. **BANKERS ACCEPTANCES**
   Bankers Acceptances (BA’s) is a draft drawn and accepted by banks that is based upon funds that will pay its face value at maturity. The security is normally traded at a discounted price. Because the accepting institution is obligated to pay for the bill, a Bankers acceptance is considered less risky than commercial paper. At the time of purchase, BA’s must be rated

A1/P1/F1 or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch) and a long term rating of single A or better if applicable. BA's are primarily used to finance international trade. BA's are timed drafts (bills of exchange) drawn on and accepted by a commercial bank. Purchases of BAs shall not exceed 180 days maturity. Issuing banks must be rated by at least two of the nationally recognized rating services. Issuers must be a corporation with total assets in excess of $5 Billion.

6. **COLLATERALIZED CERTIFICATES OF DEPOSIT**
Collateralized Certificates of Deposit must comply with Bank Deposit Law and the California Government Code §16500 et seq. and 16600 et seq.

7. **ASSET BACKED SECURITIES**
The issuer of these securities must be rated "AAA" by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch). Securities shall have a maximum remaining maturity of five years.

The allowable types of Asset Backed Securities include the following:
-U.S. Government Agency Mortgage pass through securities.
-Collateralized Mortgage Obligations (CMO).
-Equipment lease back certificates.
-Consumer receivable backed bonds.
-Auto loan receivable backed bonds.

8. **CORPORATE SECURITIES**
At the time of purchase, corporate securities must be rated A or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch). Securities in this classification must be registered with the Securities and Exchange Commission and be publicly traded or at least have undergone shelf registration. The maximum maturity for any corporate securities is five years. Eligible securities shall be 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. Yankee (foreign) Notes are allowable if they are dollar denominated and registered with the Securities and Exchange Commission for sale in the United States. If a corporate security is downgraded below our investment standards while in our portfolio, it must be evaluated on its individual merits and the investment committee will be notified in a timely manner.

9. **REPURCHASE AGREEMENTS**
Repurchase Agreements must be executed with dealers with whom the County has written agreements and who report to the Market Reports Division of the Federal Reserve Bank of N.Y. (Primary Dealers). All

transactions must be collateralized at 102% of current value plus accrued interest and must be marked to market daily. Acceptable collateral for these transactions include Treasuries or Agencies with a maximum maturity of five years.

For purposes of this authorized investments section, the term “Repurchase Agreement” means a purchase of a security by the County pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified dollar amount and will deliver the underlying securities to the County by book entry. All County pool transactions are conducted through the County custodian on a payment vs. delivery basis. The custodian shall maintain a debt rating of at least A by one of the three nationally recognized rating services (S&P, Moody’s and Fitch). When the transaction is unwound, the transfer of the underlying securities will revert to the counter party’s bank account by book entry. The term “Counter party” means the other party to the transaction with the County. The term “Securities” in a repurchase agreement means securities of the same issuer, description, issue date and maturity. The maximum allowable term of a repurchase agreement shall not exceed 92 days.

10. **LOCAL AGENCY INVESTMENT FUND**

The Local Agency Investment Fund is an investment fund run by the Treasurer of the State of California to pool local agency investments. LAIF will be used as a comparative fund to the County’s pool.

11. **REGISTERED WARRANTS**

In accordance with the Government Code §17202 **–** All registered warrants issued by the state are legal investments for all:

(a) Trust funds.
(b) Funds of all insurers.
(c) Funds of savings and loan associations.
(d) Funds of all banks, including any legal combination of commercial banks, savings banks and trust companies.
(e) Funds of all counties, municipal corporations, districts, public corporations, political subdivisions, or state agencies.

PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. The Treasurer’s investment strategy is considered active.

This Investment Policy and all subsequent amendments will be communicated by the Treasurer to the pool participants and acknowledged in writing.

Strategy: Allowable Instruments, Flexibility, Qualifications

Subject to the limitations set forth in the California Government Code § 53600 et seq. which may be amended from time-to-time, the Treasurer may invest in the following instruments, subject to the limits of flexibility described on the following page. As noted previously, all securities purchased shall be regularly monitored and re-evaluated should their ratings be downgraded below the minimum investment grade level required of the Pool and the Treasury Oversight Committee will be notified, in connection with the Pool's monthly reports, of the downgrade of any such securities in the portfolio. Decisions regarding the holding of, or the potential sale of, securities are based on a number of factors such as remaining time to maturity, the need for liquidity in the Pool.

INSTRUMENT	RATING	------------	LIMITATIONS	-------------
		% of Fund	% of Fund per Issuer	Maturity
U.S. Treasury Obligations		100	100%	10 years
Obligations of U.S. Agencies or government sponsored enterprises Callables		100	40% per issuer 20% per issuer	10 years
Bankers Acceptances *Domestic: ($5 billion minimum assets) *Foreign: ($5 billion minimum assets)	A1 / P1/ F1	 15 15	 5% Aggregate 5% Aggregate	 180 days 180 days
Collateralized time deposits within the state of CALIFORNIA		30	5%Aggregate	1 year
Negotiable certificates of deposit ($5 billion minimum assets)		30	5% Aggregate	5 years
Commercial paper	A1 / P1 / F1	40	5% Aggregate	270 days or less
Repurchase agreements secured by U.S. Treasury or agency obligation (102% collateral)		100	N/A	92 days
Corporate bonds and medium term notes including asset-backed bonds (two agencies)	A	30	5% Aggregate	5 years
Local Agency Investment Fund (LAIF)			Up to the current state limit	
Shares of beneficial interest issued by diversified management companies as defined in Government Code section 53601		10	5% Aggregate	
Mortgage Backed Securities/CMO's: No Inverse Floaters No Range Notes No Interest only strips derived from a pool of Mortgages	A	20	5% Aggregate	5 Years

Maturity and Average Life of the County Pool

The maximum allowable maturity for Treasuries and Agencies in the County pool at the time of investment will be 10 years, and the maximum dollar weighted average maturity of the fund will be 2 years. The focus of this fund is on income and value in the yield curve. On the basis of risk/reward, there is very little yield incentive to move out on the yield curve beyond intermediate maturities. The policy of maintaining a maximum dollar weighted maturity of 2 years leaves open the flexibility to take advantage of interest rate trends to maximize the return on investment. The imposed maximum 2 year average maturity limits the market risk to levels appropriate to an intermediate income fund. The word "Maturity" refers to the instrument's stated legal final redemption date - not coupon reset, put or call dates.

Securities purchased specifically to match the maturity of a bond issue and/or a contractual arrangement must be authorized by the California Government Code § 53601 and 53635 but are not included in the requirements listed above; such securities shall be clearly designated in the appropriate investment journals and reports.

Controls

Investment Authority and Responsibility: The responsibility for conducting the County's investment program resides with the Treasurer, who supervises the investment program within the guidelines set forth in this policy. The Treasurer may delegate the authority for day-to-day investment activity to the Assistant Treasurer.

County Treasury Oversight Committee: The Board of Supervisors, in consultation with the Treasurer, hereby establishes the County Treasury Oversight Committee pursuant to the California Government Code § 27130 et seq. Members of the County Treasury Oversight Committee shall be selected pursuant to the California Government Code § 27131. The Treasury Oversight Committee will meet at least three times a year to evaluate general strategies and to monitor results and shall include in its discussions the economic outlook, portfolio diversification, maturity structure and potential risks to the County pool's funds. All actions taken by the Treasury Oversight Committee are governed by rules set out in § 27131 et seq. of the California Government Code.

Members of the County Treasury Oversight Committee must pay particular attention to the California Government Code § 27132.1, 27132.2, 27132.3 and 27132.4, which read as follows:

> 27132.1 A member may not be employed by an entity that has (a) contributed to the campaign of a candidate for the office of local treasurer, or (b) contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the committee.

27132.2 A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee.

27132.3 A member may not secure employment with bond underwriters, bond counsel, security brokerages or dealers, or with financial services firms, with whom the Treasurer is doing business during the period that the person is a member of the committee or for one year after leaving the committee.

27132.4 Committee meetings shall be open to the public and subject to the Ralph M. Brown Act (chapter 9 (commencing with section 54950) of Part 1 of Division 2 of Title 5).

Reporting: The Treasurer will prepare a monthly report for the County pool participants and members of the County Treasury Oversight Committee stating, for each investment: the type of investment, name of the issuer, maturity date, par and dollar amount of the investment. For the total pooled investment fund, the report will list average maturity, duration and the current market value ("marked to market"). In addition, the Treasurer shall prepare a quarterly cash flow report which sets forth projections for revenue inflows, and interest earnings as compared to the projections for the operating and capital outflows of depositors. This projection shall be for minimum of 12 months. All Reports will be available on the County Treasurer's website at www.sanmateocountytaxcollector.org.

Annual Audit of Compliance: The County Treasury Oversight Committee shall cause an annual audit to be conducted of the portfolio, procedures, reports and operations related to the County pool in compliance with the California Government Code § 27134.

Loss Control: While this Investment Policy is based on "the Prudent Investor Rule", the Treasurer shall seek to enhance total portfolio return by means of actively managing the portfolio. In any professionally managed portfolio, occasional controlled losses are inevitable and must be realized and judged within the context of overall portfolio performance. Losses shall be allocated as otherwise described in this investment policy.

Credit Quality: Should any investment or financial institution represented in the portfolio, be downgraded by any of the major rating services to a rating below those established in this investment policy, the Treasurer must immediately make an informed decision as to the disposition of that asset and will so advise the County Treasury Oversight Committee. The situation will be monitored daily by the Treasurer until final disposition has been made.

Approved Brokers: The Treasurer will maintain a current list of approved brokerage firms to conduct business with the County. All financial institutions on the approved list will be evaluated individually, with preference given to primary dealers, who possess a strong capital and credit base appropriate to their operations. The Treasurer will forward a copy of the County Investment Policy to all approved brokers and require written acknowledgment of the policy from the vendor.

No broker, brokerage, dealer or securities firm is allowed on the approved list if, within any consecutive 48-month period, they have made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the local Treasurer, any member of the governing board of the local agency or any candidate for those offices.

Transaction Settlement: Payment of settlement in a securities transaction will be against delivery only. A due bill or other substitution will not be acceptable. All securities purchased from the brokers/dealers must be held in safekeeping by the County's safekeeping agent or designated third party.

Method of Accounting:

1. For earnings calculations, investments will be carried at original purchase cost (plus purchased accrued interest, if applicable). Premiums or discounts acquired in the purchase of securities will be amortized or accreted over the life of the respective securities. For GASB purposes, investments will be carried at cost and marked to market.
2. Gains or losses from investment sales will be credited or charged to investment income at the time of sale.
3. Purchased accrued interest will be capitalized until the first interest payment is received. Upon receipt of the first interest payment, the funds will be used to reduce the investment to its principal cost with the remaining balance credited to investment income.
4. Yield is calculated on an accrual basis using a 365-day calendar year. Earnings are calculated as follows:

$$\frac{(\text{Earnings*} + \text{Capital Gains}) - (\text{Banking Cost} + \text{Fees} + \text{Amortized Premiums} + \text{Capital Losses})}{\text{Average Daily Pool Balance}}$$

* Earnings equal net interest payments + accrued interest + accreted discounts.

5. The County Pool is operated as a single investment pool in which the banking and reporting services, required by the participant, will determine level of charges assigned to the account. Funds that generate specific volume of related banking charges such as payroll, extra reporting, etc. (variable costs) will be charged both fixed and variable banking costs as well as administrative fees before interest allocation and will be designated as Pool 1. Those funds that do not generate excessive banking cost but utilize the basic banking services (fixed costs) will be designated as Pool 2 and charged fixed banking costs and administrative fees. The final classification is designated as Pool 3 and represents those funds that have only an incidental use of the County banking system and therefore only pay administrative fees.

Withdrawal Requests: The Treasurer will honor all requests to withdraw funds for normal cash flow purposes and apportionments. Any request to withdraw funds for purposes other than cash flow and apportionment, such as for external investing, shall be subject to the consent of the Treasurer and will normally be released at 20% per month. Such requests for withdrawals must first be made in writing to the Treasurer. In accordance with the California Government Code § 27136 et seq, and 27133 (h) et seq, these requests are subject to the Treasurer's consideration of 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.

Internal Controls: The Treasurer has established a system of controls designed to prevent losses of pooled funds due to fraud, employee error, misrepresentations by third parties, unanticipated changes in financial markets or imprudent actions by employees of the County. The controls include:

1. Procedures for investment activity which includes separation of duties for transaction authority, accounting and operations and requires clear documentation of activity.
2. Custodial safe keeping as prescribed in the California Government Code § 53601.
3. Independent audit, both external and internal.
4. Clear delegation of authority.
5. Written confirmations of all telephone transactions.
6. Establishment of written ethical standards and rules of behavior.

Performance Evaluation: The Treasurer shall submit monthly, quarterly and annual reports to the County Treasury Oversight Committee, Pool participants and the Board of Supervisors. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with the California Government Code.

Safekeeping: All security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a Delivery-versus-Payment basis (DVP).
All securities shall be held by a third party custodian designated by the Treasurer and approved by the County Treasury Oversight Committee. The third party custodian shall be required to issue a safekeeping statement to the Treasurer listing the specific instrument, rate, maturity and other pertinent information.

Procedures to be followed in the execution of Investment Authority:

1. All transactions are documented as to date, time and vendor, signed by the originator and include the following information:
   A. Buy or sell
   B. Specific description of security involved (CUSIP)
   C. Settlement date
   D. Price
   E. The total amount of funds involved
   F. On non-treasury or agency transactions a notation will be made on the transaction ticket of competitive bids and offers

G. Broker/dealer

2. This information above must be given to the Investment Specialist to be used as follows:
   A. To contact the dealer to verify the information on the trade with the dealer's instructions. Any misunderstanding must be clarified at this time.
   B. To provide the County's custodian bank with the specifics of the pending transaction to assure a smooth settlement.
   C. To compare with the daily custodian transaction report to assure there are no errors.
   D. To generate the internal entries necessary for the movement of funds to complete the transaction.
   E. To compare with the broker's confirmations when received.

3. At the end of each day, the Investment Specialist summarizes all of the current day transactions in a "Daily Cash Flow Report" which is available first thing the following morning. This report includes:
   A. A summary of all the day's investment transactions.
   B. A listing of the day's wires in and out.
   C. A listing of all state automatics and other deposits received during the day.
   D. If the pool has "Repo's" out, a statement as to the current earnings rate.
   E. An estimate of the total anticipated clearings for the day.
   F. A listing of the day's Treasurer's deposits and tax receipts.

4. A best effort will be made to obtain a minimum of three prices from different brokers before executing a security transaction whenever possible. Exceptions will occur with Treasuries. In those cases the Bloomberg screen will be printed as close to the actual executed price as possible. In the case of money market, agencies or corporate securities, a best effort will be made to obtain differential bids and offers.

5. <u>Repurchase Agreements</u> All Repurchase Agreements with approved dealers will be governed by a Public Securities Association (PSA) agreement that has been approved in writing by the Treasurer.

6. <u>Confirmations</u> resulting from securities purchased or sold under a Repurchase Agreement shall state the exact and complete nomenclature of the underlying securities bought or sold, as well as the term structure (i.e. maturity) of the transaction.

7. <u>Securities on loan</u> and their corresponding investments under the County Security Lending Program must be monitored daily by the Investment Specialist to assure the Assistant Treasurer has a list of those securities that are out on loan. Interest earned will be monitored daily and compared to the monthly report of earnings by the custodial bank.

8. All transactions will be executed on a Delivery versus Pay Bases (DVP). The assets of the County shall be held in safekeeping by the County's safekeeping agent, or secured through third-party custody and safekeeping procedures. A due bill or other substitution will not be acceptable.

9. Safekeeping procedures shall be reviewed annually by the Treasurer's office and an external auditor. Surprise audits of safekeeping and custodial procedures must be conducted at least once a year.

10. Security Lending: The custodial bank may be authorized to lend out up to 20% of the portfolio within the guidelines of this policy.

11. Voluntary Participants will be accepted for participation in the San Mateo County Pooled Fund if they meet the following requirements:
    A. A public agency
    B. Domiciled in the County of San Mateo.
    C. Agree to abide by the approved San Mateo County Pooled Fund Investment Policy.
    D. Acknowledge changes to the policy annually in writing and meet the minimum balance requirements (250K).

    Agencies whose jurisdiction includes San Mateo County, but are not domiciled in San Mateo County, may participate in the San Mateo County Pooled Fund with the approval of the Treasurer and the County Treasury Oversight Committee.

Limits on Honoraria, Gifts and Gratuities:

In accordance with the California Government Code § 27133 (d) et seq., this Policy hereby establishes limits for the Treasurer, individuals responsible for management of the portfolios, and members of the Investment Group and Oversight Committee. Per the California Fair Political Practices Commission, any individual who is designated in a conflict-of-interest code are prohibited from accepting gifts or honoraria and gratuities totaling more than $420 in a calendar year from a single source, i.e., broker/dealer, bank or service provider, to the Pooled Investment Fund. Appropriate State reporting forms must be completed and sent to the County Treasurer. The forms must indicate the gift amount, dates, and business entity. Gift limits are subject to change by the FPPC, and any violation will be reported to the State Fair Political Practices Commission.