



CITY INVESTMENT POLICY

COUNCIL POLICY
Adopted: 12/5/1995
Last Approval: 6/4/2024

A. Purpose

The purpose of the City's Investment Policy is to provide guidelines and limitations for the responsible management of the City's funds that are available for investment.

B. Scope

This investment policy applies to all financial assets of the City, including all cash and investments accounted for in the following funds:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Internal Service Funds
- Trust and Agency Funds
- Debt Services Funds
- Any new fund created by the City Council

C. Policy

It is the policy of the City of Laguna Niguel to invest public funds in a manner which will provide the maximum security of principal consistent with a market rate of return while meeting the cash flow needs of the City and conforming to all applicable State and City statutes governing the investment of public funds. Every effort will be made to match investment maturities to cash flow needs.

D. Objectives

The primary objectives, in priority order, of the City of Laguna Niguel's investment activities shall be:

- 1. Safety:** Safety of principal is the foremost objective of the City. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of the capital in the overall portfolio.
- 2. Liquidity:** The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

3. Return on Investment: The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio. The average return on the State Treasurer's Local Agency Investment Fund shall be considered the City's benchmark for conservative investment transactions, and shall constitute the performance standard for the City portfolio's rate of return.

E. Prudence

The standard of prudence to be used in the investment function shall be the "prudent investor standard", as defined in Government Code Section 53600.3, which states: "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."

F. Delegation of Authority

The City Treasurer is designated as the investment officer of the City, and is responsible for investment management decisions and activities. All investment transactions shall be authorized by the City Treasurer. This annual delegation of authority is subject to renewal by the City Council pursuant to Government Code Section 53607.

G. Authorized Investments and Limitations

Investment or deposit of City funds shall be governed by Government Code Sections 53600 and 53630 et. seq., and shall be further limited to the following authorized investments and instruments:

1. United States Treasury Bills, Notes and Bonds

Maximum Amount: No limit

Maximum Maturity: A maximum of \$15 million (or the balance in the City's

Reserve for Financial and Economic Uncertainty) may be invested for up to ten years from date of purchase; otherwise five years from date of purchase

2. Direct Obligation Federal Agency Securities or United States Government-Sponsored Enterprise Obligations (allowable under Government Code Section 53601(f))

Securities of the following Federal agencies/Government-Sponsored Enterprises (GSE's) are permitted investments: Federal Home Loan Bank, Federal Farm Credit Bank, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation.

Maximum Amount: 60%

Maximum Maturity: Five years from date of purchase

Maximum Issuer Limit: 25%

3. State of California Local Agency Investment Fund

The Local Agency Investment Fund (LAIF) is a voluntary investment alternative for California's local governments and special districts authorized by the California Government Code. The LAIF is managed by the State Treasurer's Office with oversight by the Local Agency Investment Board.

All securities in LAIF are purchased under the authority of Government Code Sections 16430 and 16480.8. The State Treasurer's Office purchases all securities on a delivery versus payment basis using a third-party custodian. All investments are purchased at market, and market valuation is conducted monthly.

The LAIF is part of the State Treasurer's Pooled Money Investment Account (PMIA). The PMIA Investment Policy is guided by the goals of: (1) Portfolio safety/diversification; (2) Liquidity; and (3) Yield.

Maximum Amount Allowed: \$40 million or 55% of the City's total investment portfolio, whichever is less.

4. Collateralized or Insured Money Market Accounts and Demand Deposits with City's Primary Banks

Maximum Amount: No limit

Maximum Maturity: Not applicable

5. Insured Certificates of Deposit

The City may invest funds in FDIC insured certificates of deposit issued directly by banks or savings and loans chartered by the federal or California government. The City may also place funds directly with a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity to assist in the placement of certificates of deposit as authorized by California Government Code Section 53601.8.

Maximum Amount: 30%

Maximum Maturity Value per Institution for investments maturing is \$250,000 or the lesser of the current FDIC insured limit.

Maximum Maturity: Five years from date of purchase

6. Money Market Mutual Funds

Investment in money market mutual funds shall be limited to investments in U.S. Treasury Securities only.

Maximum Amount: 20%

Maximum per Investment: 10%

7. Orange County Investment Pool

As provided for in California Government Code Section 53684, the local agency may invest excess funds which are not required for immediate use. The Orange County Investment Pool (OCIP) is a pooled fund managed by the Orange County Treasurer pursuant to California Government Code Section 53601 and 53635 with oversight from the County's Treasury Oversight Committee. All securities in the OCIP are held by a third party custodian.

Maximum Amount Allowed: \$40 million or 55% of the City's total investment portfolio, whichever is less.

8. California Asset Management Program Pool

The California Asset Management Program (CAMP) was established in 1989 as a Joint Powers Authority to provide California public agencies with professional investment services. PFM Asset Management LLC serves as CAMP's Program Administrator and is a registered investment advisor with the Securities and Exchange Commission. The pool's objective is to earn a high

rate of return while preserving principal, providing liquidity. The Pool is managed to maintain a dollar-weighted average portfolio maturity of 60 days or less and seeks to maintain a constant net asset value (NAV) per share of \$1.00. The fund holds an AAA rating with Standard & Poor's rating agency. The CAMP pool is permitted as an investment for all local agencies under California Government Code Section 53601(p). CAMP is directed by a Board of Trustees, which is made up of experienced local government finance directors and treasurers.

Maximum Amount Allowed: \$10 million or 20% of the City's total investment portfolio, whichever is less.

9. Section 115 Pension Trust

The City may invest funds in a Section 115 Pension Trust. The City may invest Pension Trust funds in mutual funds, as allowed under Government Code Sections 53601(l) and 53601.6(b).

Maximum Amount: 20% of the City's investment portfolio

Limitation on investments as identified under this section will apply to the City's investment portfolio at all times. If for any reason, an investment exceeds a stated limitation, the City has 90 days in which to bring the investment portfolio back into compliance.

H. Portfolio Diversification

It is the policy of the City to diversify its investment portfolio. Invested funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, specific financial institution, or specific class of securities.

I. Mitigation of Market Risk

In order to minimize market risk and eliminate reliance on interest rate forecasting, it is the policy of the City to structure its investment portfolio as a maturity ladder.

The City shall use LAIF, OCIP, CAMP, and other short-term investments, with a maturity of one year or less, to maintain sufficient liquidity to meet the City's short-term operating, capital and contingency requirements. As a general guideline, the balance of the portfolio should be invested in, and evenly distributed

between, instruments with maturities of one to five years, unless in the opinion of the Investment, Banking and Audit Committee, City staff, and/or professional investment advisors, economic circumstances and/or the interest rate environment warrant an alternative investment approach. Specific instruments may be purchased to meet identified and scheduled capital expenditures.

J. Prohibited Investments

The following investments are prohibited by City investment staff; provided, however, that this provision shall not be construed as a prohibition on investment in the LAIF, OCIP, and CAMP investment pools:

1. Any form of leveraging or purchase of derivative instruments
2. Any investment issued by the Government National Mortgage Association
3. Any mortgage pass-through security, collateralized mortgage obligation mortgage-backed or other pay-through bond
4. Any inverse floaters
5. Any range notes
6. Any interest-only strips

K. Authorized Securities Broker/Dealers

The City shall maintain a listing of financial institutions, which have been approved by the City Council for investment purposes. All approved securities broker/dealers shall be primary dealers designated by the Federal Reserve Bank of New York.

Before engaging in investment transactions with an approved broker/dealer, the City shall have received from said firm a signed certificate form. The document will certify that the firm has reviewed the City's Investment Policy and agrees to disclose potential conflicts or risks to public funds that might arise out of business transactions between the firm and the City. All financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving the City's funds.

L. Use of Professional Investment Managers

The City Treasurer, with approval from the City Council, may employ the services of professional investment managers to assist in the management of the City's investment portfolio. Such managers may be granted the discretion to purchase and sell investment securities in accordance with this Investment Policy. Such

managers shall have: (1) an established professional reputation for asset or investment management; (2) knowledge and working familiarity with State and Federal laws governing and restricting the investment of public funds; (3) substantial experience providing investment management services to local public agencies whose investment policies and portfolio size are similar to those of the City; and (4) professional liability (errors and omissions) insurance and fidelity bonding in such amounts as are required by the City. Such managers shall be registered under the Investment Advisers Act of 1940. Such managers shall only be retained by written agreement with the City, and approved by the City Council. Professional service proposals shall be solicited from at least three (3) qualified persons or firms in accordance with the City's purchasing policies and procedures. A professional investment manager may only be granted discretion to purchase and sell securities if the City Treasurer exercises prudence in the selection of the manager, imposes suitable safeguards to prevent abuse in the exercise of discretion by the manager, and remains responsible for any investment decisions made by the manager with respect to the funds of the applicable local agency.

M. Use of Independent Investment Advisors

The City Council may retain the services of an independent investment advisor to review the investment program from time to time. The adviser will review compliance with policies and procedures, independently calculate the market value of the City's holdings, report on overall portfolio risk exposure and investment results, and make recommendations, if needed, regarding investment strategy or any aspect of the investment program.

N. Competitive Bids

A minimum of two offers or quotations will be obtained prior to the completion of investment transactions with authorized financial institutions. This does not apply to authorized investment pools.

O. Safekeeping and Custody

All investment securities purchased by the City, or by a professional investment manager for the City, shall be held in third-party safekeeping by a custodial financial institution, as permitted under Government Code Section 53608. Securities held will be evidenced by safekeeping receipts. All security transactions shall be conducted on a delivery-versus-payment (DVP) basis.

P. Internal Controls

The City shall establish a system of written internal control policies and procedures, which shall be reviewed annually by the independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions.

Q. Reporting

The City Treasurer shall submit monthly investment reports to the City Council. The report shall be provided to the City Council within thirty (30) days, or the next available City Council meeting, following the end of the month covered by the report. The report shall contain a summary of investment transactions including: investment types, percent of portfolio, yield, purchase date, maturity date, issuer or institution, par and dollar amount invested, market value, source of market valuation, the portfolio's average weighted yield and maturity, and a description of any local agency funds or investments under the management of contracted parties.

The report shall include a statement of compliance of the portfolio to this Investment Policy, or the manner in which the portfolio is not in compliance.

The report shall include a statement denoting the ability of the City to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

The report shall include a copy of the corresponding monthly report or statement from the City's third party safekeeping custodial bank.

If the City has any money invested in the LAIF and OCIP investment pools, the report shall include a copy of the most recent report or statement from the investment pool(s).

R. Investment Policy Review

The City's Investment Policy shall be reviewed and adopted by the City Council on an annual basis. Prior to City Council review and adoption, the policy shall be reviewed by the City Investment, Banking and Audit Committee, which shall recommend any modifications that it deems appropriate.