

CalMHSA Board of Directors Investment Policy

Resolution No. 11-06

WHEREAS, CalMHSA recognizes the need to clearly identify the objectives and guidelines for the investment and management of funds,

WHEREAS, this policy is intended to comply with the California Government Code Sections 53600-53610 and 53630-53686,

NOW THEREFORE, the Board of Directors hereby confirms that the Board of Directors Investment Policy is effective as of the date of this meeting, October 13, 2011.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

Board of Directors Investment Policy

I. Statement of Purpose

The purpose of this document is to clearly identify the objectives and guidelines for the investment and management of funds under the direction of the California Mental Health Services Authority (CalMHSA). This policy is intended to comply with the California Government Code Sections 53600-53610 and 53630-53686.

II. Scope

This statement of investment policy applies to all financial assets of CalMHSA.

III. Delegation of Authority

The CalMHSA Board of Directors (or delegated Committee) is responsible for directing and monitoring the investment management of CalMHSA assets. The Board of Directors may delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

- A. **Investment Management Consultant.** The consultant may assist the Board of Directors in establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
- B. **Investment Manager.** The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to help meet the objectives.
- C. **Custodian.** The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following

purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of applicable CalMHSA accounts.

IV. General Investment Principles

- A. Investments will be made solely in the interest of CalMHSA.
- B. Funds will be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiarity with such matters would use in the investment of funds of like character and with like aims.
- C. Board members, staff and agents involved in the investment process must be free of conflict with proper execution of the investment program. This shall be accomplished by the following:
 - 1) Board members must comply with Government Code section 1090 et seq., which prohibits any involvement in a contract in which the director has an economic interest and
 - 2) Directors and staff involved in the investment process shall comply with the Conflict of Interest Code (disclosure as required under Resolution 09-01) and report conflicts as required by CalMHSA's Conflict of Interest Policy (Resolution 10-02).

V. Investment Objectives (ranked in decreasing order of importance)

- A. Maintaining the safety of principal
- B. Meeting the liquidity needs of CalMHSA
- C. Attaining a market rate of return on the investments which is consistent with the constraints imposed by safety objectives and cash flow considerations.

VI. Investment Time Horizon

The time period over which the investment objectives, as described in this statement, are expected to be met is 1-3 years.

VII. Permitted Investments

- A. U.S. Treasuries (bills, notes, and bonds) for which the full faith and credit of the United States are pledged for the payment of principal and interest.
- B. U.S. Agency Obligations. Federal agency or U.S. government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully

guaranteed as to principal and interest by federal agencies or U.S. government-sponsored enterprises.

- C. California State and Local Agency Obligations. Obligations of the State of California or any local agency within the State, including bonds payable solely out of revenues from a revenue-producing property owned, controlled or operated by the State or any local agency or by a department, board, agency or authority of the State or any local agency.
- D. Other State Obligations. Registered treasury notes or bonds of any of the other 49 United States in addition to California, including bonds payable solely out of the revenue 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 United States, in addition to California.
- E. Medium-term Corporate Notes. Notes defined as all corporate and depository institutional debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operated within the United States or by depository institutions licensed by the United States or any state and operating within the U.S. Medium-term notes must be rated "A" or better (or its equivalent) by a nationally recognized statistical rating organization (NRSRO) and may not exceed 30 percent of the CalMHSAs investment portfolio.
- F. FDIC insured or fully collateralized time Certificates of Deposit in a state or national bank, savings association or federal association, federal or state credit union in the State of California.
- G. Negotiable Certificates of Deposit. Negotiable CDs 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. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the CalMHSAs investment portfolio.
- H. State of California's Local Agency Investment Fund (LAIF)
- I. Bankers' Acceptances. Purchases of bankers' acceptances may not exceed 180 days maturity or 40 percent of the Cal MHSAs investment portfolio. No more than 30 percent of the CalMHSAs investment portfolio may be invested in the bankers' acceptances of any one commercial bank.

J. 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 U.S. 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 a nationally recognized statistical rating organization (NRSRO).
2. The entity meets the following criteria: a) Is organized within the U.S. as a special purpose corporation, trust, or limited liability company, b) has program wide 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 a nationally recognized statistical rating organization (NRSRO).

Eligible commercial paper shall have a maximum maturity of 270 days or less. Purchases of eligible commercial paper may not represent more than 25 percent of the CalMHSAs investment portfolio, with no more than 10 percent of the outstanding commercial paper invested in any single issuer.

K. Repurchase Agreements. Investments in repurchase agreements may be made on an investment authorized in this investment policy statement, 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. The counterparty will deliver the underlying securities to CalMHSAs 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.

L. 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. 801-1 et seq.). To be eligible for investment, companies shall have met either of the following criteria: 1) attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations (NRSROs), 2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience investing in money market mutual funds and with assets

under management in excess of five hundred million dollars (\$500,000,000). The purchase price of shares shall not exceed 20 percent of the CalMHSA investment portfolio.

VIII. Investment Guidelines and Constraints

- A. To support the stated investment objectives, the portfolio must be constructed to minimize risk and maintain marketability.
- B. Investment maturities will be based on and scheduled to meet anticipated cash flow needs.
- C. Where this investment policy specifies maximum percentage limitations or credit quality criteria, the limitations and criteria are applicable at the date of purchase. If subsequent to the time of purchase, the credit quality of a holding falls below the allowed rating, the Investment Manager will notify CalMHSA and recommend a course of action. In the event that the percentage limit guidelines are exceeded subsequent to the time of purchase, the Board expects the Investment Manager to bring the portfolio into compliance within a time frame which allows for good trade execution.

IX. Reporting

- A. Monthly statements showing positions marked to the market, all transactions, and summary of income will be provided to CalMHSA by the investment manager(s) and custodian.
- B. Quarterly investment performance and asset allocation reports will be provided to CalMHSA by the Investment Management Consultant and Investment Manager
- C. The Treasurer shall submit a quarterly report to the Board of Directors which complies with the requirements of Government Code Sections 53646 (b) and (c).

X. Investment Policy Adoption and Review

- A. The CalMHSA investment policy shall be adopted by the Board of Directors.
- B. The investment policy shall be reviewed on an annual basis by the Finance Committee and Board of Directors.
- C. Modification to the investment policy must be approved by the Board of Directors.

Date Adopted: October 13, 2011

Date of Last Revision: N/A

Replaces Resolution No: N/A

Ayes: 28 Noes: 0 Abstains: 0 Absent: 13

<u>Maureen F. Baum</u>	<u>Secretary</u>	<u>10/13/11</u>
NAME	TITLE	DATE
Maureen F. BAUM		