Trindel Insurance Fund

A Joint Powers Authority Established in 1980

TREASURY FUNDS

INVESTMENT POLICY

AND

GUIDELINES

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TRINDEL INSURANCE FUND
TREASURY FUNDS
INVESTMENT POLICY

The primary investment objective of Trindel Insurance Fund is to preserve capital by investing in securities in accordance with the Government Code while maintaining an appropriate level of risk. The second objective shall be to maintain an adequate level of liquidity. The third objective shall be to achieve an optimum rate of return on invested funds measured as yield (accrued income) and as a total rate of return (accrued income plus changes in market values).

The total rate of return of the portfolio shall be measured against the Merrill Lynch 1-3 Year Treasury Index. The objective shall be to exceed the index by a minimum of 10 basis points over a complete interest rate cycle (peak to peak or trough to trough).

The annualized yield shall be measured against the annualized yield of the Local Agency Investment Fund (LAIF). The objective shall be to exceed LAIF yields by a minimum of 25 basis points over a complete interest rate cycle.

Sections 53601 and 53601.1 of the Government Code provide legal authorization for investment of funds of local agencies. All investments of Trindel Insurance Fund shall conform to the restrictions of those laws. In addition, further requirements shall be established taking into consideration prudent investment standards.

An appropriate risk level shall be maintained by primarily purchasing securities that are liquid, marketable, and of high quality.

Adequate diversification shall be applied to the individual issuers of debt (normally banks), both within each class of investment and collectively. The intent is to prevent an undue amount of investments from being at risk with any one institution.

The classes of investments that most adequately meet the above mentioned criteria shall be allowed for purchase. They are issues of the United States Government, agencies (The Government National Mortgage Associations, The Federal Home Loan Bank, The Federal Home Loan Mortgage Corporation, The Federal National Mortgage Association, The Federal Farm Credit System, The Tennessee Valley Authority, and The Student Loan Marketing Association), negotiable certificates of deposit (including Yankees), bankers' acceptances (including foreign issues), commercial paper and medium-term notes. While not as liquid or marketable as the prior mentioned securities, repurchase agreements and time certificates of deposit shall also be allowable investments.

Trindel Insurance Fund shall also have the option of depositing funds with LAIF up to the maximum allowed and/or depositing funds with any Trindel member County Treasurer.

Guidelines shall be developed for each type of security recommended above to allow investment policy to be properly implemented. Included in the guidelines shall be a brief description of each type of security, legal restrictions, quality standards, and diversification requirements.

The yield on the investment portfolio can be optimized by using various accepted investment methods and techniques.

Maturities of investments will be selected taking many variables into consideration. Probably the most important variable will be the shape of the yield curve and the anticipated change in that curve. Proper use of the yield curve will involve not only purchasing securities with desirable maturities, but also swapping from existing portfolio securities with less desirable maturities into those with maturities that are perceived as currently more advantageous. The average maturity of the portfolio will be shortened or lengthened primarily depending upon the expectations of future interest rates. No security may be purchased with a maturity greater than five years unless prior approval has been obtained from the Board of Directors.

Additional income can be obtained through prudent use of swaps. Securities in different classes (sectors) trade at "average" yield differentials from each other. When those spreads are at extremes, an opportunity to increase yield exists by selling a security in the portfolio and purchasing (swapping into) a security in another sector that has a wider than "average" yield spread. This type of swap can be reversed when the yield differential becomes narrower than normal between the two issues, and the process repeated when appropriate.

Securities not specifically approved in this policy, including reverse repurchase agreements and financial futures, may not be purchased (or agreed to)

This Investment Policy and Guidelines shall be reviewed and approved annually by the Board of Directors in accordance with Government Code § 53646. By adoption of this investment policy, the Board of Directors delegates investment authority to the Executive Director for a one-year period in accordance with Government Code § 53607. Such investment authority shall include authority to invest or to reinvest funds of the Authority, or to sell or exchange securities so purchased.

Interest or investment earnings will be distributed each quarter of the fiscal year. Earnings will be distributed to each members based on their cash balance in the Workers' Compensation fund and the Property/ Liability funds. Members will be allocated a portion of the earnings based on their percentage of cash balance of the fund's total cash balance at the end of each quarter.

TRINDEL INSURANCE FUND
TREASURY FUNDS
INVESTMENT GUIDELINES
U.S. Treasuries and Agencies

INVESTMENTS: Issues of the U.S. Treasury (treasuries or governments), agencies of the federal government, and the Federal National Mortgage Association (FNMA) shall be authorized as acceptable investments for Trindel Insurance Fund.

REASONS: U.S. Treasury issues are judged to be the safest of all investments. Agencies are typically considered the next safest class of securities available. (The Federal National Mortgage Association is now publicly owned but the investment world still generally groups it with the agencies. For purposes of these guidelines, it will be referred to as an agency.) These securities are also very liquid, marketable, and they offer a wide range of available maturities.

LEGAL AUTHORITY: Section 53601 of the Government Code authorizes local agencies to purchase all of these securities with no limitations as to the amount that can be owned of each.

CHARACTERISTICS: Agencies of the Federal government are the Federal Home Loan Bank System (FHLB), the Federal Farm Credit System (FFCS), the Federal Home Loan Mortgage Corporation (FHLMC), the Government National Mortgage Association (GNMA), the Tennessee Valley Authority (TVA), and the Student Loan Marketing Association (SLMA).

Securities issued by the GNMA are guaranteed by the Federal government and it is a general belief that the other agencies carry an "implied" guarantee (excluding FNMA).

Along with treasuries, agencies can be issued in discount form for securities with maturities of one year or less, or with coupons if the maturities are greater than one year. With the exception of the FFCS, TVA and SLMA the agencies issue a variety of securities backed by mortgages. Maturities on treasuries and agencies can be from just a few days to thirty years.

While all of these securities are classified as agencies, there are perceived differences in quality and consequently each will trade at a different yield from each other and treasuries. Issues of the GNMA, because of the government guarantee, are considered the safest of the agencies.

GUIDELINES: There shall be no restrictions on the amount of dollars to be placed in governments at any one time.

As a general guide, no more than 30 percent of available funds should be placed in any one agency at any one time.

TRINDEL INSURANCE FUND
TREASURY FUNDS
INVESTMENT GUIDELINES
Bankers Acceptance

INVESTMENTS: Domestic and Japanese Bankers' Acceptances shall be authorized as acceptable investments for Trindel Insurance Fund.

REASONS: Bankers' Acceptances (BA's) are a suitable short-term investment. In addition to providing additional yield, they are considered a relatively safe and liquid investment.

DEFINITION: A BA is a time draft drawn on and accepted by a bank for payment of the shipment or storage of merchandise. The initial obligation of payment rests with the drawer, but the bank substitutes its credit standing for that of the borrower and assumes the obligation to pay face value at maturity.

LEGAL AUTHORITY: Section 53601 of the Government Code allows local agencies to place up to 40 percent of available funds in bankers' acceptances.

FOREIGN BA'S: During the 1970's foreign banks, and in particular the Japanese agencies, became a competitive force in the U.S., especially in the issuance of BA's. The International Banking Act (IBA) was passed by Congress and signed into law in 1978 to regulate foreign banks. The IBA created a dual state and federal regulatory system. The Fed was authorized to fix reserve requirements for both state and federally licensed agencies of foreign banks. Most states require foreign agencies to maintain assets in an amount not less than 108 percent of the adjusted total liabilities of the agency and to deposit cash or securities with the state equal to 5 percent of adjusted total liabilities.

HISTORY: A form of BA's was used to finance foreign trade as early as the 12th century and they have been used in the United States for over 100 years. The Federal Reserve allowed national banks to accept time drafts in 1913 to encourage foreign trade and subsequently took action to promote expansion of the BA market. The most dramatic growth of the BA market began in 1974 when the total of BA's outstanding was approximately $10 billion. By the end of 1981, the volume had expanded to over $69 billion.

CHARACTERISTICS: BA's are issued in bearer form and are a discount instrument. Normal trading blocks are $5 million, but the odd-lot market is active. The majority of BA's created is with a 90-day maturity and rarely extends over 180 days.

Due to the high volume of BA's being traded, they are a relatively liquid instrument with spreads between the quoted bid and offer typically being between five and ten basis point, but often brokered for as little as two basis points.

Domestic BA's usually will yield 15 to 30 basis points over Treasury bills, and foreign BA's an additional 40 to 50 basis points. During periods of easy money, the spreads can be substantially less. Likewise, tight money can produce wider yield differentials.

Since BA's are a "two-name paper" they are perceived to be the safest of bank obligations. During the more than 70 years that BA's have been actively traded in the U.S. no loss of principal has been documented.

GUIDELINES: Only the most stable of banks shall be acceptable for purchase. BA's shall only be purchased from banks that meet minimum quality standards as determined by professional rating services, and that are approved by the Executive Director.

Since BA's are a relatively safe investment, Trindel Insurance Fund is authorized to invest in BA's up to the 40 percent maximum authorized by law.

No more than 15 percent of funds in the Trindel Insurance Fund portfolio shall be placed in the BA's of any one bank at any one time.

In combination with all other investments from the same bank or its holding company (excluding repurchase agreements and commercial paper with maturities of seven days or less), BA's of any one bank should not exceed 20 percent of available funds.

TRINDEL INSURANCE FUND
TREASURY FUNDS
INVESTMENT GUIDELINES
Time Certificate of Deposit

INVESTMENT: Time Certificates of Deposit (TCDs) shall be authorized as acceptable investments for the investment portfolio of Trindel Insurance Fund.

REASONS: TCDs can be attractive investments because they offer competitive yields, a wide range of maturities, and a relatively high degree of safety if they are issued by a financial institution of high quality and collateralized.

DEFINITIONS: A TCD is a non-negotiable instrument evidencing a deposit with a financial institution for a fixed period of time and normally for a fixed rate of interest. TCDs can be collateralized with securities or mortgages or, if issued in denominations of $100,000 or less, they can be insured by the Federal Deposit Insurance Corporation, or other corporations.

LEGAL AUTHORITY: Section 53630 of the Government Code allows public agencies to invest in the TCDs of depositories (banks, savings and loan associations, savings associations, savings banks or federally insured loan companies).

HISTORY: Prior to 1975, bank TCDs collateralized with securities were one of the few investments allowed for public agencies. Subsequently, TCDs of other depositories were legalized as investments, the insured portion of TCDs was raised to $250,000, mortgages could be utilized as collateral, and collateral could be waived in lieu of insurance.

CHARACTERISTICS: TCDs purchased by public agencies pay interest at least quarterly. Maturities are typically one year or less. Because they are non-negotiable, they are non-liquid and cannot be sold or redeemed prior to maturity without suffering a loss of interest. TCDs can be written for any amount, but it has become common practice over the past few years to issue TCDs in $250,000 denominations to take advantage of the insurance available on that amount.

TCDs covered by insurance typically yield slightly more than TCDs collateralized. Because of recent financial strains suffered by banks, and savings and loans, yields on TCDs issued by different institutions can vary a great deal depending upon the quality and size of the institution. Normally, yields on TCDs issued by larger, more stable (first-tier) banks will be at a slight premium to treasury yields. TCDs of lower-rated depositories can yield up to 300-400 basis points over those of first-tier banks during periods of tight monetary policy.

GUIDELINES: TCDs depositories must meet a minimum rating from a professional rating service, and be approved for purchase by the Executive Director.

No more than 15 percent of available funds shall be placed in TCDs of any one institution at any one time.

All TCD deposits shall be fully collateralized as provided for in the Government Code. Waivers for insurance will be allowed (only for those institutions meeting the minimum quality standard).

Interest shall be collected monthly when possible.

Up to 30 percent of funds being managed may be deposited in TCDs at any one time.

Deposits in any one financial institution, in combination with any other debt issued by that institution or its holding company should equal no more than 20 percent of available funds (excluding repos and commercial paper with maturities of seven days or less).

TRINDEL INSURANCE FUND
TREASURY FUNDS
INVESTMENT GUIDELINES
Commercial Paper

INVESTMENT: Commercial paper shall be authorized as an acceptable investment for Trindel Insurance Fund.

REASONS: Commercial paper can offer some of the most attractive short-term interest rates available, odd amounts of funds can be invested and a wide range of maturities are normally available (up to about 90 days).

DEFINITION: Commercial paper is negotiable corporate debt, usually unsecured, issued on a continuous basis for short time frames.

LEGAL AUTHORITY: Section 53601 of the Government Code authorizes local agencies to purchase commercial paper of the highest rating offered by Moody's or Standard and Poor's. In addition, corporations issuing eligible commercial paper must possess an "A" or better rating (by Moody's or Standard and Poor's) on debt other than commercial paper, if any. To be an eligible issuing corporation, it must be organized and operating within the United States and have assets in excess of $500,000. Purchases of commercial paper may not exceed 270 days maturity, nor represent more than 10 percent of each corporation's outstanding paper. Up to 40% of available funds may be placed in commercial paper.

HISTORY: Commercial paper has been used in the United States for almost 300 years. At first, it was used mainly for the purchase of goods. By 1920, borrowers were generally using commercial paper to finance working capital or seasonal needs. Issuers include industrial corporations, public utilities, finance companies and bank holding companies. Total commercial paper outstanding at any one time can approach 200 billion dollars.

CHARACTERISTICS: Commercial paper is normally issued in multiples of $100,000. About one-half of outstanding commercial paper is sold directly by the borrowers and one-half is sold through dealers. Maturities of commercial paper can extend out to 270 days, but the majority of maturities are for 90 days or less. Commercial paper can be issued on a discount or interest bearing basis. Both methods of issuance result in

identical yields. A corporation can write commercial paper on a continuous basis for any number of maturities.

Irrevocable letters of credit (LOCs) or irrevocable revolving credit loans (IRCs) can be used to guarantee commercial paper. For issuers utilizing LOCs or IRCs, rating agencies will base their ratings on the credit worthiness of the bank providing the LOCs or IRCs.

Commercial paper is negotiable, but it is not nearly as liquid as most other money-market instruments. Dealers acting as agent for an issuer normally are prepared to buy back any of that issuer's outstanding paper from purchasers, but the spreads can be up to 20 or 25 basis points.

Yield spreads on commercial paper over treasury yields can vary substantially. During low interest rate environments when there is low demand for funds, the spreads on prime commercial paper can be equal to or even less than treasury yields. When money is "tight" the spreads can be up to 300 basis points.

GUIDELINES: In addition to meeting the rating standards of the Government Code, issuers of commercial paper must also be approved by the Executive Director.

Commercial paper purchased from any one corporation shall not exceed 1 percent of available funds.

In combination with any other debt issued by any one corporation, no more than 20 percent of available funds shall be placed in that corporation at any one time. If the corporation is a bank holding company, total investments in it plus investments with or deposits in the affiliate bank, shall not exceed 20 percent of available funds.

TRINDEL INSURANCE FUND
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INVESTMENT GUIDELINES
Medium-Term Corporate Notes

INVESTMENT: Medium-term notes (MTNs) shall be authorized as acceptable investments for Trindel Insurance Fund.

REASON: Medium-term notes are a suitable investment for maturity requirements of one to five years. High-quality corporate notes are relatively safe as to principal, reasonably liquid and they can offer attractive yields and a wide range of maturities.

DEFINITION: MTNs are negotiable instruments issued by corporations with maturities of nine months to fifteen years. Most are unsecured, although some are collateralized or carry other credit enhancements such as a letter of credit.

LEGAL AUTHORITY: Section 53601 of the Government Code allows public agencies to invest a maximum of 30 percent of available funds in MTNs with maturities up to five years. Issuers must be operating within the United States and possess a rating of "A" or its equivalent or better by a nationally recognized rating service. The definition of legal investments under this section of the Code was expanded on 1-1-00 to include "all corporate and depository institution debt securities."

HISTORY: MTNs were initially issued by General Motors Acceptance Corporation (GMAC) in 1972. They have become a more prevalent investment since 1982 when the SEC removed some restrictions that had previously hindered their sale. Currently, there are over 100 issues of MTNs with outstanding notes of over 35 billion dollars.

CHARACTERISTICS: MTNs are generally issued in minimum amounts of $25,000 or $100,000 and integral amounts of $1,000. Interest is calculated on a 30-day month, 360-day year basis and paid semi-annually on two pre-established dates. Floating rate MTNs can pay interest monthly, quarterly, or semi-annually.

Yields on MTNs will normally exceed those on treasuries with comparable maturities by about 10 to 75 basis points. Levels of interest rates, maturities, the quality of each issue, and supply and demand factors will affect available yields.

GUIDELINES: Only MTNs issued by the most stable corporations should be purchased for the Trindel Insurance Fund portfolio. In addition to meeting the rating standards of the Government Code, issuers of medium-term notes must be approved by the Executive Director.

Up to 30 percent of available funds shall be allowed to be placed in MTNs at any one time.

No more than 10 percent of available funds should be allowed to be placed in the notes of any one issuer at any one time. In combination with any other debt issued by any one corporation or its holding company, no more than 2 percent of available funds should be placed in that corporation at any one time.

TRINDEL INSURANCE FUND
TREASURY GUIDELINES
INVESTMENT GUIDELINES
Repurchase Agreements

INVESTMENT: Repurchase Agreements (Repos) shall be authorized as acceptable investment instruments for Trindel Insurance Fund.

REASONS: Repos are one of the most flexible investments available to invest short-term funds and when proper guidelines are followed, are relatively safe.

DEFINITIONS: A repo involves two simultaneous transactions. One transaction involves the sale of securities (collateral) by a borrower of funds, typically a bank or broker/dealer in governments or agencies, to a lender of funds. The lender can be any investor with cash to invest. The second transaction is the commitment by the borrower to repurchase the securities at the same price plus a predetermined amount of interest on an agreed future date.

LEGAL AUTHORITY: Section 53601 of the Government Code permits repos in any security that is allowed for purchase as defined in that same section of the Code. Collateral must be delivered to the local agency by book entry, physical delivery or third party custodial agreement. Market value of collateral must be equal to at least 102 percent of the repo.

CHARACTERISTICS: Repos can be entered into with any amount of dollars, including odd amounts. They are typically for very short periods, often one day, but it is not unusual for repos to be for periods of up to 180 days and occasionally longer.

Any type of security can be used as collateral but most often government or agencies' securities are utilized.

The interest rate earned on a repo is a function of short-term borrowing rates, the term of the repo, the size of the transaction, and the quality and supply of the securities used as collateral.

RISK: There are minimal risks involved in a repo transaction if the collateral is priced properly. Caution should be used for repos of greater than 30 days so that market changes do not substantially change the value of the collateral.

GUIDELINES: Repos shall be transacted only with banks or broker/dealers considered reputable and financially strong. An eligible bank or broker/dealer must meet a minimum quality standard as determined by professional rating services.

Collateral used for repos shall be any security approved for purchase. For repos of 30 days or less no more than 20 percent of available funds shall be invested with any one institution.

For repos of over 30 days no more than 10 percent of available funds shall be placed with any one institution.
Securities purchased through repurchase agreements shall be considered "owned" and added to the total of those securities (excluding repos of seven days or less). This will prevent percentage limitations placed on any type of security from being exceeded.

TRINDEL INSURANCE FUND
TREASURY FUNDS
SUMMARY OF INVESTMENT LIMITATIONS

	*Limit Per Institution	*Limit Per Type of Investment
Treasuries		100%
Agencies		
GNMA		100%
FFCS		100%
FHLB		100%
FHLMC		100%
FNMA		100%
SLMA		100%
TVA		100%
BA's	15%	40%
TCD's	15%	30%
CP	1%	20%
CD's	10%	30%
MTN's	10%	30%
Repos		
Less than 30 days	20%	100%
Greater than 30 days	10%	100%

Securities can only be purchased from or deposits may only be placed with institutions that meet a minimum quality standard as determined by the Executive Director.

*Based on total of available funds at the time the investment decision is made.