First 5 Commission San Diego

Subject: Investment Policy

Policy Number: F5C-011 Effective Date: October 5, 2020

Investment Framework:

Objective: Investment in high quality securities; in order of importance: principal safety, liquidity and return.

Portfolios: Operating Fund: Portfolio used to fund current cash flow needs of First 5 programs.
Sustainability Fund / Reserve Fund: Portfolio used to fund longer term program needs.

Constraints:

Risk Tolerance: The portfolios will be invested in a manner consistent with the primary objective of principal safety. However, fluctuations in security values may result in unrealized losses, which would result in realized losses if the sale of these securities became necessary.

Credit Quality: *Minimum credit quality rating at the time of purchase as follows: Short term:* A-1, P-1, or F1 rating; *Long term:* AA or Aa rating category

Liquidity: The portfolios will be invested in a manner consistent with the liquidity needs as provided by First 5 staff members.

Time Horizon: Specific Board of Supervisors approval has been granted, extending permitted maturities up to 20 years in the Sustainability Fund. The Operating Fund is subject to a maximum final maturity of 5 years.

Taxes: Not applicable

Other: Not applicable

Profile:

Portfolio Structure:

Portfolios will invest primarily in the County Investment Pool ("County Pool"), Commercial Paper, Negotiable CD, Medium Term Notes, US Agencies and Treasuries. The portfolio maturity structure will be driven by the cash flow needs of First 5, as provided by staff members (see *Expectations* below), and accommodations for appropriate levels of liquidity.

Permissible Investment:

Funds to be invested in the County Pool or any investment authorized pursuant to Sections 53601 and 53635 of the Government Code pursuant to *Constraints* listed above.

Primary Risks:

Interest Rate Risk:

As interest rates rise, the value of fixed income securities held by the portfolio is likely to decrease. Securities with longer dated maturities tend to be more sensitive to changes in interest rates, usually making them more volatile and susceptible to unrealized losses than securities with shorter dated maturities. This portfolio might maintain longer dated maturities than both Local Agency Investment Fund (LAIF) and the County Pool, hence more susceptible to unrealized losses.

Issuer Non-Diversification Risk:

Portfolios which have a focus of investments in a small number of issuers or industries have increased risk. Funds that invest in a relatively small number of issuers are more susceptible to risks associated with a single economic, political or regulatory occurrence than a more diversified portfolio might be. These portfolios will be less diversified than both LAIF and the County Pool, hence more susceptible to non-diversification risk.

Delegation of Authority

The Commission hereby delegates the authority to the Treasurer-Tax Collector of San Diego County to invest First 5 funds in accordance with this investment policy. This authority will remain in effect until revoked in writing by the First 5 Commission.

Expectations:

First 5:

As periodic adjustments to First 5 cash flow needs from the portfolios become known, they will be communicated to the Investment Staff of San Diego County Treasurer-Tax Collector on a timely basis. This is critical in mitigating interest rate risk while allowing the portfolio to invest in securities with the appropriate maturity structure.

Investment Staff:

Provide a Monthly Investment Report on portfolio performance.

Sunset Review: November 2023

Originally Approved October 4, 2004
Revised: September 11, 2006; November 17, 2009; November 7, 2011; November 2017

Approved:

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Date	Commission Item No.