



**CDIAC/CMTA Advanced Public Funds Investing Seminar:  
The Analytics of Selecting Public Fund Investment and Decision-Making**

**Session Two: Recap of Permissible Investments**

January 27, 2016 11:15-12:15 PM

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# Advanced Workshop + Advanced Math=Advanced Presentation

- From Wikipedia for probability theory, part of expected value, properties...
- Iterated expectation[[edit](#)]
- Iterated expectation for discrete random variables[[edit](#)]
- For any two [discrete](#) random variables , one may define the [conditional expectation](#):<sup>[7]</sup>
- which means that  $E[X|Y = y]$  is a function of  $y$ . Let  $g(y)$  be that function of  $y$ ; then the notation  $E[X|Y]$  is then a random variable in its own right, equal to  $g(Y)$ .

• **Lemma.** Then the expectation of  $X$  satisfies:<sup>[8]</sup>  $E[X] = E[E[X|Y]]$ .

• **Proof.**

$$\begin{aligned} E[E[X|Y]] &= \sum_y E[X|Y = y] \cdot P(Y = y) \\ &= \sum_y \left( \sum_x x \cdot P(X = x|Y = y) \right) \cdot P(Y = y) \\ &= \sum_y \sum_x x \cdot P(X = x|Y = y) \cdot P(Y = y) \\ &= \sum_y \sum_x x \cdot P(Y = y|X = x) \cdot P(X = x) \\ &= \sum_x x \cdot P(X = x) \cdot \left( \sum_y P(Y = y|X = x) \right) \\ &= \sum_x x \cdot P(X = x) \\ &= E[X] \end{aligned}$$

# FIGURE 1

## ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2016)<sup>A</sup> APPLICABLE TO ALL LOCAL AGENCIES<sup>B</sup>

INVESTMENT TYPE	MAXIMUM MATURITY <sup>C</sup>	MAXIMUM SPECIFIED % OF PORTFOLIO <sup>D</sup>	MINIMUM QUALITY REQUIREMENTS
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations— CA And Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40% <sup>E</sup>	None
Commercial Paper— Pooled Funds <sup>I</sup>	270 days	40% of the agency's money <sup>G</sup>	Highest letter and number rating by an NRSRO <sup>H</sup>
Commercial Paper— Non-Pooled Funds <sup>F</sup>	270 days	25% of the agency's money <sup>G</sup>	Highest letter and number rating by an NRSRO <sup>H</sup>
Negotiable Certificates of Deposit	5 years	30% <sup>J</sup>	None
Non-negotiable Certificates of Deposit	5 years	None	None
Placement Service Deposits	5 years	30% <sup>J</sup>	None
Placement Service Certificates of Deposit	5 years	30% <sup>J</sup>	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days <sup>K</sup>	20% of the base value of the portfolio	None <sup>L</sup>
Medium-Term Notes <sup>M</sup>	5 years	30%	"A" Rating
Mutual Funds and Money Market Mutual Funds	N/A	20% <sup>N</sup>	Multiple <sup>O,P</sup>
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	"AA" Rating <sup>Q</sup>
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple <sup>R</sup>
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund <sup>S</sup>	N/A	None	None
Supranational Obligations <sup>T</sup>	5 years	30%	"AA" Rating

# Local Agency Bonds

## 53601 (a)

- (a) **Bonds issued by *the local agency*** including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.
- If buying your own debt, consider a possible conflict of interest:
  - As an issuer, your goal is getting (paying) the lowest possible yield.
  - As an investor, your goal is getting the highest possible yield.
  - Backup you decision with documentation
- 5y maximum maturity; no % limits; no minimum quality requirements
- CDIAAC Webinar 3 Municipals; *When It Makes Sense to Buy Municipals*:  
<http://www.treasurer.ca.gov/cdiac/webinars/2015/portfolio/presentations/20150624.pdf>

# U.S. Treasury Obligations

## 53601 (b)

- (b) **United States Treasury notes, bonds, bills, or certificates of indebtedness**, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- The Treasury issues the following by auction:
  - Bills: 3mo, 6mo, & 1y
  - Fixed Rate Notes: 2, 3, 5, 7, & 10y
  - Floating Rate Notes (FRNs): 2y (introduced in 2014)
  - Bonds: 30y
  - TIPS (Treasury-Inflation Protected Securities); Principal adjusted for inflation by use of the CPI Index (Consumer Price Index)
- 5y maximum maturity; no % limits; no minimum quality requirements
- CDIAAC Webinar 1 Treasuries; *Investing In Treasuries*:  
<http://www.treasurer.ca.gov/cdiac/webinars/2015/portfolio/presentations/20150521.pdf>

# State Obligations-CA

## 53601 (c)

- (c) **Registered state warrants or treasury notes or bonds of *this state***, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.
- CA State GO Bond Ratings:
  - Fitch: A+
  - Moody's Aa3
  - Standard & Poor's: AA-
- 5y max maturity; no % limits; no minimum quality requirements

# State Obligations-Other States

## 53601 (d)

- (d) **Registered treasury notes or bonds of *any of the other 49 United States*** in addition to California, including bonds payable solely out of the revenues 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.
- Due diligence is paramount. There are different laws for different states and it is difficult to keep up with what's happening in each state.
- 5y max maturity; no % limits; no minimum quality requirements



# CA Local Agency Obligations

## 53601 (e)

- (e) **Bonds, notes, warrants, or other evidences of indebtedness of *any local agency within this state***, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.
- Examples-Certificates of Participation (COPs) and Variable Rate Demand Note (VRDN)
- 5y max maturity; no % limits; no minimum quality requirements



# U.S. Agency Obligations

## 53601 (f)

- **(f) Federal agency or United States government-sponsored enterprise (GSEs) obligations, participations, or other instruments**, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
- Currently allowable GSEs: FFCB, FHLB, FHLMC, FNMA, Farmer Mac, AID, TVA, & PEFCO.
- 5y max maturity; no % limits; no minimum quality requirements
- CDIAC Webinar 2 Agencies; *Demystifying the World of U.S. Federal Agencies and Supranationals*:  
<http://www.treasurer.ca.gov/cdiac/webinars/2015/portfolio/presentations/20150617.pdf>

# Allowable GSE websites

- FFEB [www.farmcreditfunding.com](http://www.farmcreditfunding.com)
- FHLB [www.fhfb-of.com](http://www.fhfb-of.com)
- FHLMC [www.freddiema.com](http://www.freddiema.com)
- FNMA [www.fanniema.com](http://www.fanniema.com)
- Farmer Mac [www.farmermac.com](http://www.farmermac.com)
- AID [www.usaaid.com](http://www.usaaid.com)
- TVA [www.tva.gov](http://www.tva.gov)
- PEFCO [www.pefco.com](http://www.pefco.com)



# Bankers Acceptance (BA)

## 53601 (g)

- (g) **Bankers acceptances otherwise known as bills of exchange or time drafts** that are drawn on and accepted by a commercial bank. Purchases of bankers acceptances may not exceed 180 days' maturity or 40 percent of the agency's money that may be invested pursuant to this section. However, no more than 30 percent of the agency's money may be invested in the bankers acceptances of any one commercial bank pursuant to this section.
- **BAs are a common way to finance international trade. It is issued by a non-financial firm and guaranteed by a bank to make payment.**
- 180 days maximum maturity; 40% maximum limit; 30% maximum in any one commercial bank.
- CDIAAC Webinar 4 Money Markets Part 1 Banker's Acceptances; *Understanding Banker's Acceptances and Commercial Paper*:  
<http://www.treasurer.ca.gov/cdiac/webinars/2015/portfolio/presentations/20150708.pdf>

# Commercial Paper (CP)

## 53601 (h)

- **(h) 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)...
- **CP is a short-term unsecured promissory note from the issuer to pay; 1<sup>st</sup> line of defense is the issuer’s stand-alone credit strength.**
- CDIAC Webinar 4 Money Markets Part 1 Banker’s Acceptances; *Understanding Banker’s Acceptances and Commercial Paper*:  
<http://www.treasurer.ca.gov/cdiac/webinars/2015/portfolio/presentations/20150708.pdf>

# Commercial Paper (CP)

## 53601 (h) Paragraph 1

- Paragraph (1): The entity meets the following:
  - (A) Is organized and operating in the United States as a general corporation
  - (B) Has total assets of five hundred million dollars (\$500,000,000)
  - (C) Has debt other than commercial paper, if any, that is rated “A” or higher by an NRSRO

# Asset-Backed CP (ABCP)

## 53601 (h) Paragraph 2

- The entity meets the following:
  - (A) Is organized within the United States 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 bond
  - (C) Has commercial paper that is rated A-1 or higher, or the equivalent, by an NRSRO

# Commercial Paper (CP)

## Other Agencies

- **“Other Agencies” are counties, a city and county, or other local agency “that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body.”** Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set for “Select Agencies,” from the previous slide.
- CP-Pooled Funds: 270 days maximum maturity; 40% of the agency’s money; highest letter and number rating by an NRSRO.

# Commercial Paper (CP)- Select Agencies

- **“Select Agencies”** are defined as a **“city, a district, or other local agency that does not pool money** in deposits or investment with other local agencies, other than local agencies that have the same government body.”
- CP-Non-pooled funds: 270 days maximum maturity; 25% of the agency’s money; local agencies (other than cities and counties) may purchase no more than 10% of the outstanding CP of any single issuer; Highest letter and number by an NRSRO.

# Certificate of Deposit (CD)

- **A certificate of deposit (CD), also called a time deposit, is a promissory note issued by a depository institution (such as a bank, credit union, saving association, etc.).**
- Issued in a negotiable or non-negotiable form
- CDIAC Webinar 4 Money Markets Part 2 Certificates of Deposit...; *Money Markets Certificates of Deposit, Deposit Placements Services & Collateralized Bank Deposits*  
<http://www.treasurer.ca.gov/cdiac/webinars/2015/portfolio/presentations/20150909.pdf>

# Negotiable Certificates of Deposit

## 53601 (i)

- **(i) Negotiable certificates of deposit 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 federally licensed or state-licensed branch of a foreign bank.** Purchases of negotiable certificates of deposit may not exceed 30 percent of the agency's money which may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638.
- Negotiable certificates of deposit (NCDs) have an active secondary market.
- **Avoid conflicts of interest between “person of investment authority” and the entity.**
- 5y maximum maturity; 30% of the agency's money; no minimum quality requirement

# Negotiable CD (NCD)

## Brokered CD

- Brokered CD is a certificate of deposit that is purchased through a brokerage firm or from a sales representative other than a bank.
- Brokered CDs from a broker dealer are part of a Master CD that is a negotiable instrument.

# Non-negotiable CDs\*

## 53635.2, 53637, 53638, 53653

- **A Non-Negotiable Certificate of Deposit (CD) is a promissory note issued by a depository institution** (such as a bank, credit union, a saving association, etc.) that usually carries a penalty for early withdrawal.
- Bought mostly by individuals directly from a bank.
- Deposits can be raised over the internet, through a CD service, and other means such as Deposit Brokers.
- Deposit brokers may not be licensed or certified, and no state or federal agency approves them.
- \*FDIC insurance coverage limits apply (250k). A “political subdivision” is entitled to its own insurance coverage if it meets three specific needs of the FDIC. Confirm with the FDIC concerning deposit insurance for accounts held by government depositors at [www.fdic.gov/deposit/deposits/factsheet.html](http://www.fdic.gov/deposit/deposits/factsheet.html)
- 5y maximum maturity; no % limits; no minimum quality requirements

# Placement Service Assisted *Deposits*

## 53601.8

- Notwithstanding Section 53601 or any other provision of this code, a local agency that has the authority under law to invest funds, at its discretion, may invest a portion of its surplus funds in ***deposits*** at a commercial bank, savings bank, savings and loan association, or credit union that **uses a private sector entity that assists in the placement of deposits...**Conditions apply...see full code.
- 5y maximum maturity; 30% maximum of the agency's money may be invested in deposits, including CDs through a placement service.

# Placement Service Assisted *Certificates of Deposit*

## 53601.8 & 53635.8

- 53601.8 Notwithstanding Section 53601 or any other provision of this code, a local agency that has the authority under law to invest funds may, at its discretion, invest a portion of its surplus funds in ***certificates of deposit*** at a commercial bank, savings bank, savings and loan association, or credit union that **uses a private sector entity that assists in the placement of certificates of deposit**, provided that the purchases of certificates of deposit pursuant to this section, Section 53635.8, and subdivision (i) of Section 53601 do not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose. Conditions apply...see full code.
- 53635.8 Notwithstanding Section 53601 or any other provision of this code, a local agency that has the authority under law to invest funds, at its discretion, may invest a portion of its surplus funds in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit, provided that the purchases of certificates of deposit pursuant to this section, Section 53601.8, and subdivision (i) of Section 53601 do not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose. Conditions apply...see full code.
- 5y maximum maturity; 30% maximum of the agency's money may be invested in deposits, including CDs through a placement service.

# Repo/Reverse Repo/Securities Lending

## 53601 (j)

- j(1) Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of any securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.
- (2) Investments in repurchase agreements may be made, on any investment authorized in this section, *when the term of the agreement does not exceed one year*. The market value of securities that underlay 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.
- **Repo is a sale of a security with a simultaneous commitment by the seller to repurchase the security from the buyer at a future date at a predetermined price.** Repo: 1y maximum maturity; market value of security must be valued 102% or > of funds borrowed; collateralized by Code or IP's allowable securities; brought back to the value at 102%, no later than the next business day.
- **Securities lending, like repo, is a type of secured financing transaction.** Repo constitutes a sale of securities; where securities lending does not constitute a sale of the securities; they are on-loan. **Reverse repo/securities lending: 92 days maximum maturity; 20% base value of the portfolio; Rev. Repo must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.**
- CDIAAC Webinar 4 Money Markets Part 3 Repurchase Agreements...; Utilizing Repurchase Agreements, Reverse Repos & Securities Lending Agreements: <http://www.treasurer.ca.gov/cdiac/webinars/2015/portfolio/presentations/20150805.pdf>

# Medium-Term Notes

## 53601 (k)

- (k) **Medium-term notes, defined as all corporate and depository institution debt securities** with a maximum remaining maturity of five years or less, ***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. Notes eligible for investment under this subdivision *shall be rated “a” or better* by a nationally recognized rating service. Purchases of medium-term notes shall not include other instruments authorized by this section and may not exceed 30 percent of the agency’s money that may be invested pursuant to this section.
- 5y maximum maturity; 30% maximum of the agency’s money; A or better by an NRSRO.
- CDIAAC Webinar 5 Corporates: *Making Sense of Corporate Notes and Bonds*  
<http://www.treasurer.ca.gov/cdiac/webinars/2015/portfolio/presentations/20150819.pdf>



# Corporate: Credit Tiers from 3 Major Rating Agencies

Standard & Poor's	Moody's	Fitch
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
BB+	Ba1	BB+
BB	Ba2	BB
BB-	Ba3	BB-
B+	B1	B+
B	B2	B
B-	B3	B-
CCC+	Caa1	CCC
CCC	Caa2	DDD
CCC-	Caa3	DD

- CMTA 2015 Advanced Investment Workshop, Corporate Credit Checklist by Ken Morris  
[https://c.ymcdn.com/sites/cmta.site-ym.com/resource/resmgr/Presentations/Kent\\_Morris\\_Corporate\\_Checklist.pdf](https://c.ymcdn.com/sites/cmta.site-ym.com/resource/resmgr/Presentations/Kent_Morris_Corporate_Checklist.pdf)

# Registered vs. 144A

- Corporations are subject to the Securities Act of 1933 when issuing public securities. Certain securities may be exempt from registration in the US under 144A (private placement).
- Securities Act of 1933 requires that an issuer provide the SEC and potential investors with all relevant information pertaining to an offering through a **prospectus and registration statement**.
- 144(a) allows for the resale of securities without the registration requirements of the Securities Act of 1933 to ONLY qualified institutional buyers (QIBs). A QIB is an investor (not an individual) that owns and invests, on a discretionary basis, at least \$100 million in securities. The broker-dealer threshold is \$10 million.
- In review of the SEC's QIB List, under Plan, **Public Agencies are referenced as a QIB only as those who invest for the benefit of their employees.**
- CDIAC Issue Brief 13-05:  
<http://www.treasurer.ca.gov/cdiac/issuebriefs/201307.pdf>

# Mutual Funds & Money Market Funds

## 53601 (I)

- **I(1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630).** However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company's board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.
- **(2) 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. 80a-1 et seq.)...**RESTRICTIONS APPLY**...see full details under 53601 (I).
- ... (5) The purchase price of shares of beneficial interest purchased pursuant to this subdivision **shall not include commission** that the companies may charge and **shall not exceed 20 percent of the agency's moneys** that may be invested pursuant to this section. However, **no more than 10 percent of the agency's funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph (1).**
- CDIAAC Webinar 7 Mutual Funds...*Differentiating Mutual Funds from Money Market Mutual Funds and Understanding Investment Pools:*  
<http://www.treasurer.ca.gov/cdiac/webinars/2015/portfolio/presentations/20150916.pdf>

# Mutual Fund vs. Money Market Fund

- A mutual fund is an investment vehicle (operated by a money manager) that is a pool of funds collected from investors for the purpose of investing in various securities based on the objectives outlined in its prospectus.
  - Mutual Funds' value fluctuates with the market.
  - Mutual funds structured as a fixed income vehicle may have both short-term and long-term maturities.
  - Mutual funds can result in loss of principal due to market fluctuations.
- A money market fund is a type of mutual fund that invests in fixed income securities with short maturities and relatively minimal risk.
  - Money market funds seek to maintain a net asset value (NAV) of \$1.00
  - Money market funds' weighted average maturity (WAM) is 60 days
- **Funds' investments and maturities must be in compliance with CA Code 53601 or your IP, if it's more restrictive.**
- Review the previous link, CDIAC Webinar 7, for an overview of key SEC changes to mutual fund rules.

# Bond Proceeds\*

## 53601 (m)

- (m) Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, **may be invested in accordance with the statutory provisions governing the issuance of those bonds**, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.
- SEC Municipal Advisor Rule went into effect July 2014, on “advice” and interaction with issuers. All State and local government employees, board members, committee members, and others are exempted from the rule when acting in their official capacity.
- Review GFOA Issue Brief, <http://www.gfoa.org/gfoa-issue-brief-sec-municipal-advisor-rule>
- \*Not listed under Figure 1 LAIG Table for Allowable Investment Inst



# Collateralized Bank Deposits

## 53601 (n)

- (n) **Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest** in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.
- Collateral requirements vary based on eligible securities.
  - 5y maximum maturity; no % limits; no minimum quality requirements.

# Mortgage-backed Securities , Collateral-mortgage obligations, and Asset-Backed Securities

## 53601 (o)

- (o) A mortgage pass through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of five years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by an NRSRO and rated in a rating category of "AA" or its equivalent or better by an NRSRO. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section.
- CDIAC Webinar 6 Asset-Backed Securities...; *Understanding Structured Pooled Securities...*:  
<http://www.treasurer.ca.gov/cdiac/webinars/2015/portfolio/presentations/20150902.pdf>

# ABS, MBS, & CMO

- Asset-backed securities (ABS) are created with cash flows from financial assets, such as auto receivables or credit card receivables, then pooled and converted into securities sold to investors (through a trust).
- Mortgage-backed securities (MBS) are created by pooling together individual mortgages, residential or commercial.
- Collateralized Mortgage Obligations (CMOs) are created by pooling mortgage pass-through securities, breaking them up and converting them into securities via tranches.
- 5y, 20% maximum limit of the agency's money; AA rating for the security; A rating for the issuer as provided by an NRSRO.

# County Pooled Investment Funds

## 53684

- No maximum specified % of portfolio
- No minimum quality requirements
- All have oversight committees
- Post on their websites monthly investment results
- No % limits for the agency's money; no minimum quality requirements
- CDIAAC Webinar 7 Mutual Funds...; *Differentiating Mutual Funds from Money Market Mutual Funds and Understanding Investment Pools:*  
<http://www.treasurer.ca.gov/cdiac/webinars/2015/portfolio/presentations/20150916.pdf>

# Joint Powers Authority Pool

## 53601 (P)

- **(p) Shares of beneficial interest issued by a joint powers authority** organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (n), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
  - (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
  - (2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (n), inclusive.
  - (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).
- Two examples are CAMP and CalTrust.
- No maximum maturity; no % limits; no minimum quality requirements.

# LAIF

## 16429.1

- LAIF is a voluntary program created by Statute; began in 1977 as an investment alternative for CA local governments and special districts.
  - LAIF is a part of the Pooled Money Investment Account (PMIA).
  - Monies placed in LAIF can not be transferred or impounded or seized by any state official or state agency.
  - The right to withdraw deposited monies upon demand may not be altered, impaired or denied in any way by a state official or state agency based upon the state's failure to adopt a State Budget by July 1 of each new fiscal year.

# Voluntary Investment Program Fund

16340

- Program provided by the State of CA
- Deposit between \$200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies.
- Deposits in the fund will be invested in the Pooled Money Investment Account (PMIA).

# Supranationals (SUPRAs)

## 53601 (q)

- (q) **United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank**, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated "AA" or better by an NRSRO and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this
- Washington Supras are headquartered in DC and have a AAA rating. The US is the largest shareholder.
- The Washington Supras are the following:
  - The World Bank (**IBRD**); officially called the International Bank for Reconstruction & Development
  - International Finance Corporation (**IFC**)
  - Inter-American Development Bank (**IADB**)
- 5y maximum maturity; 30% maturity limit; minimum AA or better rating by an NSRSRO
- CDIAAC Webinar 2 Agencies; *Demystifying the World of US Fed agencies & Supranationals*:  
<http://www.treasurer.ca.gov/cdiac/webinars/2015/portfolio/presentations/20150617.pdf>

# Resources

- CDIAC <http://www.treasurer.ca.gov/cdiac/>
- CMTA <http://www.cmta.org/>
- GFOA Issue Brief, <http://www.gfoa.org/gfoa-issue-brief-sec-municipal-advisor-rule>
- LAIF <http://www.treasurer.ca.gov/pmia-laif/laif.asp>



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