TAHOE FOREST HOSPITAL DISTRICT

2021-06-15 Special Meeting of the Board of Directors

Tuesday, June 15, 2021 at 10:00 a.m.

Pursuant to Section 3 of Executive Order N-29-20, issued by Governor Newsom on March 17, 2020, the Special Meeting of the Tahoe Forest Hospital District Board of Directors for June 15, 2021 will be conducted telephonically through Zoom.

Please be advised that pursuant to the Executive Order, and to ensure the health and safety of the public by limiting human contact that could spread the COVID-19 virus, the Eskridge Conference Room will not be open for the meeting.

Board Members will be participating telephonically and will not be physically present in the Eskridge Conference Room.

If you would like to speak on an agenda item, you can access the meeting remotely: Please use this web link: https://tfhd.zoom.us/j/91948785702

If you prefer to use your phone, you may call in using the numbers listed below: (346) 248 7799 or (301) 715 8592, Meeting ID: 919 4878 5702

Tahoe Forest Hospital District

Meeting Book - 2021-06-15 Special Meeting of the Board of Directors

06/15/2021 Special Meeting

AGENDA

Tahoe Forest Health System

Investment Management Services

Board Presentation – June 15th, 2021

Christopher McCarry, AIF
Senior Portfolio Strategist

Don Penner
Director of National Accounts

For One-on-One Presentation

Table of Contents

Section 1 | Partnering with Chandler Asset Management

Dedicated Team Working for Tahoe Forest Health System

TAHOE FOREST HEALTH SYSTEM

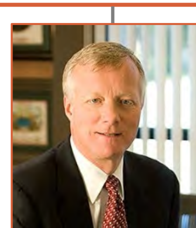
TFHS Financial Staff

Board of Directors

Your Assigned Team

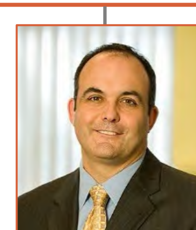
Christopher McCarry, AIF
Sr. Portfolio Strategist
20 Yrs. Industry Experience

Portfolio Strategy & Research



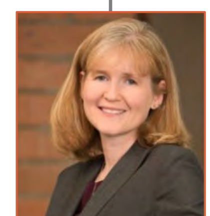
Don Penner
Dir. Of National Accounts
20 Yrs. Industry Experience

Relationship Management & Client Service



William Dennehy II, CFA
Deputy CIO
29 Yrs. Industry Experience

Portfolio Management, Research, & Credit Analysis



Stacey Alderson, CTP
Sr. Client Service Manager
23 Yrs. Industry Experience

Client Service, Reporting, & Training

Supported by 28 Additional Professionals:
Investment Management, Compliance, Operations, Client Service and Administration

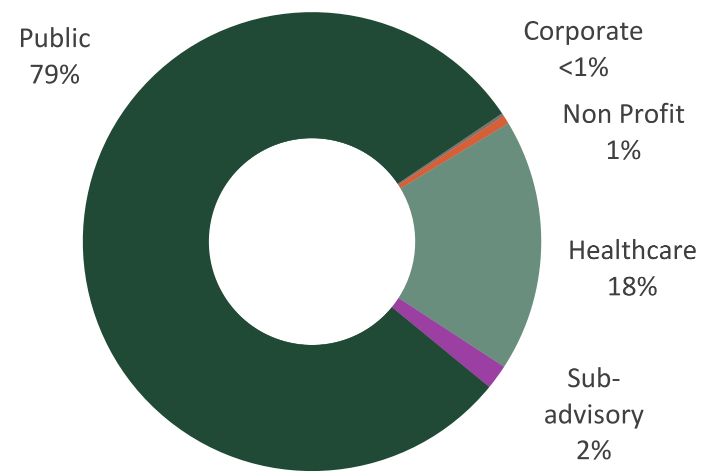
Specializing in Investment Management for Public Agencies

"We believe if we do what is right for our clients, our own success will follow."

- *California Based, Independent & Employee-Owned*
  - Fixed income specialist since 1988
  - Founded by public investment professionals
  - Serve institutions with public sector focus
  - Headquartered in San Diego with two offices in Northern California
- *Custom Investment Programs*
  - Investment solutions based on your risk profile and return goals
  - Strategies for operating, short- and long-term reserves
  - Direct contact with investment management team
- *Stable Team of Investment Professionals*
  - Team of investment professionals average over 25 years portfolio management experience
  - Disciplined, repeatable investment philosophy and process
  - Proprietary investment analysis

Assets Under Management

$22.7 Billion



Chandler Asset Management Assets as of March 31, 2021.

Section 2 | Investment Approach

We work with You on All Aspects of Your Program

Approach to Building an Optimal Investment Program

Initial Steps

Review Investment Policy → Cash Flow Analysis → Develop Portfolio Strategy → Active Investment Management

Ongoing Management

- Credit analysis of security issuers and financial institutions
- Asset-liability management
- Broker/dealer due diligence and relations
- Consistent application of a disciplined, conservative investment process. Our approach focuses on:
  - Safety of principal*
  - Appropriate levels of liquidity
  - Diversification of risk
  - Compliance with legal requirements, policies, and objectives
  - Generating market yield and return

While Chandler focuses on safety of principal by investing in conservative investment-grade quality bonds, investors should be aware that bonds and other fixed income securities do carry some degree of risk and we cannot ensure a profit nor guarantee against loss.

Segmenting the Portfolio for Optimal Structure

TAHOE FOREST HEALTH SYSTEM

Total Portfolio

Liquidity Portfolio

- Local Government Investment Pool (LGIP)
- Matching maturities to known expenditures
  - Money market instruments
    - Agency Discount Notes
    - Commercial Paper
    - Certificates of Deposit

Reserve Portfolio

- Target generally to a higher duration to enhance the potential to increase earnings
  - Invest in securities allowed by Code:
    - U.S. Treasury Securities
    - U.S. Agency Securities
    - High-Grade Credit

Investment Strategies Provided for Three Decades

- Consistent, stable, risk-adjusted returns over a market cycle across a wide range of possible investing conditions
- Tightly controlled duration, sector allocation, term structure and security selection differentiates our performance
- Strategies have historically outperformed client benchmarks in rising, falling and stable rate environments

Composite Performance – *Gross and Net of Fees*

as of March 31, 2021

	One Year	Three Years	Five Years	Ten Years	Since Inception
Chandler Limited Maturity (gross) *(inception: 10/31/88)*	**1.18%**	**2.94%**	**1.92%**	**1.54%**	**4.50%**
Chandler Limited Maturity (net)	1.06%	2.82%	1.8%	1.42%	4.38%
ICE BAML 1-3 Year US Treasury Index	*0.27%*	*2.78%*	*1.72%*	*1.29%*	*4.21%*
Chandler Short Term Bond (gross) *(inception: 9/30/95)*	**1.29%**	**3.45%**	**2.15%**	**1.93%**	**4.02%**
Chandler Short Term Bond (net)	1.17%	3.33%	2.03%	1.81%	3.90%
ICE BAML 1-5 Year US Treasury & Agency Index	*-0.07%*	*3.26%*	*1.91%*	*1.72%*	*3.76%*

*Based on Chandler's Limited Maturity and Short Term Bond composites as of 03/31/2021. Please see the GIPS Composite Reports at the end of this presentation. Past performance is not indicative of future results. Performance is presented gross and net of investment management fees. *Net returns are for a sample fee of 12 basis points (0.12 of 1%). Gross performance does not reflect payment of advisory fees and other expenses which will reduce performance. All investment strategies have the potential for profit or loss. Market conditions or economic factors may alter the performance and results of a portfolio. Investment advisory fees are disclosed in the firm's Form ADV, Part 2A. Performance for periods greater than one year is annualized. For one-on-one presentation only.*

Solutions Designed to Meet Your Goals $50M

Chandler Investment Styles

10-Year Net of Fee Hypothetical Performance*

March 31, 2011 – March 31, 2021

Investment Style	Portfolio Duration	Annualized Total Return 10 Year Period (Net of 12 bps fee)	10-Year Growth of $50 Million Portfolio (Net of fee)	Chandler Added Value Over LAIF (Net of fee)
LAIF	*0.60*	*0.85%*	*$54.4 million*	*N/A*
Chandler's Limited Maturity (1-3 Year)	1.85	1.42%	$57.6 million	**$3.2 million**
Chandler's Short Term Bond (1-5 Year)	2.54	1.81%	$59.9 million	**$5.5 million**

**Net performance for Chandler investment styles based on sample fee of 12 basis points (0.12 of 1%) relative to LAIF. LAIF returns include an administrative fee charged to investors by the California State Treasurer. LAIF duration estimated based on average maturity in days, as of 03/31/2021, divided by 365 days. Performance shown is hypothetical for a $50 million portfolio and not based on an actual client's account. Performance for Chandler's Limited Maturity and Short Term Bond has been calculated using historical composite performance. Past performance is not a guarantee of future results. Please see the GIPS Composite Reports and disclosures at the end of this presentation for further details. For one-on-one presentation only.*

Section 3 | Observations

Investment Policy Recommendations

Chandler's recommendations are meant to enhance risk management language and bring the policy in line with California Government Code 53601 and best practices of the California Debt and Investment Advisory Commission (CDIAC) and the California Municipal Treasurers Association (CMTA).

Our review included the following recommendations/revisions:

- Authorized Investments
    - Supranational securities; added to permitted investments
    - Updated maximum maturity to 5 years
    - Updated money market fund language
    - Added Senate Bill 998 language regarding zero or negative interest securities
- Updated language regarding scope, pooling of investment funds, investment policy review, safekeeping and custody
- Revised policy language related to delegation of authority, reporting requirements

Compliance with Investment Policy

Assets managed by Chandler Asset Management are in full compliance with California Government Code and with the Client's investment policy.

Category	Standard	Comment
Treasury Issues	No limitation	*Complies*
Agency Issues	No limitation	*Complies*
Supranationals	30% maximum; 5% max issuer; 5 years max maturity; Issued by IBRD, IFC, or IADB only; "AA" rated or higher by a NRSRO	*Complies*
Banker's Acceptances	40% maximum; 5% max issuer; <180 days maturity; A-1 rated equivalent by at least two NRSROs; "A" rated or better by two NRSROs on long-term debt	*Complies*
Commercial Paper	25% maximum; 5% max issuer; <270 days maturity; A-1 rated or higher by at least two NRSROs; "A" rated or higher by two NRSROs on long-term debt; Issuer is a corporation organized and operating within U.S. with assets in excess of $500 million	*Complies*
Negotiable Certificates of Deposit	40% maximum; 5% max issuer; <180 days maturity; A-1 rated equivalent by at least two NRSROs; "A" rated or better by two NRSROs on long-term debt	*Complies*
Medium Term Notes	30% maximum; 5% max issuer; "A" rated or better by two NRSROs	*Complies*
Money Market Mutual Funds	20% maximum; 10% per fund; Highest rating by two NRSROs	*Complies*
Federally Insured Certificates of Deposit (CDs)/Time Deposit (TDs)	20% maximum (combined FDIC insured and collateralized TD/CD)	*Complies*
Collateralized Certificates of Deposit (CDs)/Time Deposit (TDs)	20% maximum (combined FDIC and collateralized TD/ CD); A-1, or higher by 2 NRSROs; "A" rated or higher by two NRSROs, if long-term debt	*Complies*
Mortgage Pass-throughs, CMOs and Asset Backed Securities	20% maximum; 5% max issuer; "AA" rated or higher by a NRSRO; "A" rated issuer or higher by a NRSRO; 5 years max maturity	*Complies*
Local Agency Investment Fund (LAIF)	Program limitation; Currently not used by investment adviser	*Complies*
Repurchase Agreement	1 year max maturity; 102% collateral; Currently not used by investment adviser	*Complies*
Prohibited Securities	Inverse floaters; Ranges notes, interest-only strips from mortgaged backed securities; Zero interest accrual securities	*Complies*
Max Per Issuer	5% (except U.S. government, its Agencies and GSEs, Money Market Fund or LGIP)	*Complies*
Maximum maturity	5 years	*Complies*

This sample report is being provided for illustrative purposes to demonstrate Chandler Asset Management's reporting capabilities. Elements of the Compliance Report are representative of investment guidelines promulgated by State Law or the entity's investment policy.

QUESTIONS?

Contact:

Don Penner, *Director of National Accounts*
Chandler Asset Management, Inc.
2121 North California Boulevard, Suite 290
Walnut Creek, California 94596

Toll Free: 800.317.4747 | Mobile: 619.987.9020
dpenner@chandlerasset.com
www.chandlerasset.com

Section 4 | Disclosures

GIPS® Compliant Verification Statement

ACA COMPLIANCE GROUP
PERFORMANCE SERVICES

Verification Report

Chandler Asset Management, Inc.
6225 Lusk Boulevard
San Diego, CA 92121

We have verified whether Chandler Asset Management, Inc. (the "Firm") has, for the periods from July 1, 1997 through March 31, 2020, established policies and procedures for complying with the Global Investment Performance Standards (GIPS®) related to composite and pooled fund maintenance and the calculation, presentation, and distribution of performance that are designed in compliance with the GIPS standards, as well as whether these policies and procedures have been implemented on a firm-wide basis. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

The Firm's management is responsible for its claim of compliance with the GIPS standards and the design and implementation of its policies and procedures. Our responsibilities are to be independent from the Firm and to express an opinion based on our verification. We conducted this verification in accordance with the required verification procedures of the GIPS standards, which includes testing performance on a sample basis. We also conducted such other procedures as we considered necessary in the circumstances.

In our opinion, for the periods from July 1, 1997 through March 31, 2020, the Firm's policies and procedures for complying with the GIPS standards related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been, in all material respects:

- Designed in compliance with the GIPS standards, and
- Implemented on a firm-wide basis.

This report does not relate to or provide assurance on any specific performance report of the Firm or on the operational effectiveness of the Firm's controls or policies and procedures for complying with the GIPS standards.

Adviser Compliance Associates, LLC

Adviser Compliance Associates, LLC
ACA Performance Services Division
October 22, 2020

GIPS® Composite Report: Limited Maturity

Annual Rates of Return 2010 through 2020

		Returns		3 Year Annualized		Dispersion		Assets		
Year	Total	Total		Standard Deviation		Asset Wtd	Number of	Composite	% of Firm	Firm
End	Gross	Net	Index	Composite	Index	Std. Dev.	Portfolios	(MM)	Assets	(MM)
2010	2.96%	2.70%	2.35%	n/a	n/a	0.38%	8	201	3.50%	5,755
2011	1.88%	1.62%	1.55%	1.02%	1.02%	0.31%	9	222	3.74%	5,929
2012	1.16%	0.91%	0.43%	0.78%	0.73%	0.06%	15	474	7.37%	6,431
2013	0.30%	0.05%	0.36%	0.59%	0.50%	0.08%	18	797	11.12%	7,165
2014	0.87%	0.61%	0.62%	0.54%	0.43%	0.09%	21	879	9.88%	8,894
2015	0.74%	0.49%	0.54%	0.63%	0.56%	0.07%	27	1,328	11.31%	11,747
2016	1.11%	0.86%	0.88%	0.74%	0.76%	0.06%	31	1,081	8.39%	12,882
2017	0.85%	0.60%	0.43%	0.71%	0.74%	0.08%	32	1,178	8.60%	13,698
2018	1.69%	1.44%	1.59%	0.77%	0.85%	0.03%	31	1,905	11.51%	16,551
2019	3.87%	3.61%	3.55%	0.84%	0.94%	0.08%	39	2,653	13.57%	19,552
2020	3.25%	3.00%	3.12%	0.92%	1.21%	0.12%	39	2,713	12.21%	22,227

Chandler Asset Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards.

Chandler Asset Management has been independently verified by ACA Performance Services for the period of July 1, 1997 through March 31, 2020. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

1. Chandler Asset Management is an independent investment adviser registered as such with the Securities and Exchange Commission under the Investment Adviser's Act of 1940. Registration with the SEC does not imply a certain level of skill or training. Since 1988, Chandler Asset Management has provided fixed income investment management services to the public sector, as well as to foundations, endowments, individuals and corporations. A complete list and description of all of the firm's composites is available upon request.
2. The Limited Maturity Composite is a composite of individually managed accounts with an average modified duration approximately equal to the modified duration of the ICE Bank of America Merrill Lynch 1-3 Year US Treasury Index and a final stated maturity of individual securities of five years. The minimum account size required to be included in this composite is $2 million. This composite was created September 1988. The name of this composite was changed from Short-Term Fixed Income effective June 30, 2009.
3. The ICE BAML 1-3 Year US Treasury Index tracks the performance of US dollar-denominated sovereign debt publicly issued by the US government in its domestic market. Qualifying securities must have at least one year remaining term to final maturity and less than three years remaining term to final maturity, a fixed coupon schedule, and a minimum amount outstanding of $1 billion. Qualifying securities must have at least 18 months to final maturity at the time of issuance. Indexes are referred to for comparative purposes only and are not intended to parallel the risk or investment style of the portfolios in the Composite. Indexes do not utilize leverage. Index calculations do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index. Index data contained herein (and all trademarks related thereto) are owned by the indicated index provider, and may not be redistributed. The information herein has not been approved by the index provider.
4. Valuations are computed and performance reported in U.S. Dollars.
5. Performance is calculated using a time-weighted total rate of return, which links performance monthly, and is reported gross of investment management fees and custodial fees, but after all trading expenses. Results reflect the reinvestment of income, dividends and other earnings, and include realized and unrealized gains and losses and interest accrued through the last day of each month. Results do not reflect the potential impact of taxes. Past performance is not indicative of future results. Fees charged by Chandler Asset Management will reduce performance.
6. Net-of-fees performance returns are calculated by reducing the monthly gross performance by one-twelfth (1/12) of the actual maximum applicable fee of 0.25%, which is representative of our current fee schedule for this composite. These monthly returns are then geometrically linked to produce annual returns which are presented before custodial fees but after management fees and all trading expenses. Fees are negotiable and additional information regarding Chandler's fees is included in our Part 2A of Form ADV.
7. Dispersion is calculated using the asset weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year. For years when less than six portfolios were included in the composite for the full year, no dispersion measure is presented. The three-year annualized standard deviation measures the variability of the composite gross returns and the benchmark returns over the preceding 36-month period. Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request.
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GIPS® Composite Report: Short Term Bond

Annual Rates of Return 2010 through 2020

Year End	Returns Total Gross	Returns Total Net	Index	3 Year Annualized Standard Deviation Composite	3 Year Annualized Standard Deviation Index	Dispersion Asset Wtd Std. Dev.	Number of Portfolios	Assets Composite (MM)	Assets % of Firm Assets	Assets Firm (MM)
2010	3.97%	3.70%	3.46%	n/a	n/a	0.11%	33	1,906	33.12%	5,755
2011	2.90%	2.64%	3.19%	1.47%	1.65%	0.07%	32	1,866	31.48%	5,929
2012	1.80%	1.54%	0.98%	1.18%	1.27%	0.26%	38	2,133	33.17%	6,431
2013	0.04%	-0.21%	-0.16%	1.02%	1.10%	0.08%	39	2,168	30.26%	7,165
2014	1.42%	1.17%	1.24%	0.96%	0.99%	0.07%	40	2,325	26.14%	8,894
2015	1.15%	0.90%	0.96%	1.11%	1.18%	0.07%	44	3,403	28.97%	11,747
2016	1.30%	1.04%	1.08%	1.24%	1.39%	0.05%	49	4,131	32.07%	12,882
2017	1.08%	0.83%	0.67%	1.19%	1.34%	0.11%	48	3,783	27.62%	13,698
2018	1.53%	1.27%	1.55%	1.22%	1.40%	0.05%	48	3,485	21.06%	16,551
2019	4.55%	4.29%	4.19%	1.22%	1.39%	0.19%	55	5,199	26.59%	19,552
2020	4.43%	4.17%	4.22%	1.32%	1.70%	0.11%	59	6,234	28.05%	22,227

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Any forecasts, forward-looking statements and assumptions are inherently limited and should not be relied upon as an indicator of future results. Any opinions or views constitute judgments made by the author at the date of this presentation and may become outdated or superseded at any time without notice. Any statements concerning financial market trends are based on current market conditions, which will fluctuate.

Fixed income investments are subject to interest, credit and market risk. Interest rate risk: the value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market in general could decline due to economic conditions, especially during periods of rising interest rates.

Where listed, certain performance shown is hypothetical and does not represent actual trading in a client's account. HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFIT OR LOSSES SIMILAR TO THOSE SHOWN. THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK AND DOES NOT TAKE INTO ACCOUNT THAT MATERIAL AND MARKET FACTORS MAY HAVE IMPACTED THE ADVISER'S DECISION-MAKING IF THE ADVISER WERE ACTUALLY MANAGING CLIENT'S MONEY. NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS, ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS. It should not be assumed that investors who invest in Chandler Asset Management's Portfolios will be profitable or achieve the hypothetical performance results reflected or any corresponding index presented. Actual performance of and holdings and investment implementation in Chandler Asset Management's client accounts can materially differ from that of the hypothetical models presented herein and performance can be higher or lower than the results shown. Investors may have experienced investment results during the corresponding time periods that were materially different from those portrayed. Back-tested performance does not represent actual performance and should not be interpreted as an indication of such performance. The opinions referenced are as of the date of publication and are subject to change. Chandler Asset Management has discretion in the timing of trade execution and selection of securities traded and utilized in any client account, which can and will materially differ from the hypothetical simulated performance based upon a variety of factors, including the adviser's discretion to not follow any trading signal generated and to determine the timing and implementation of a trade (which can include securities other than those listed).

ICE BAML 1-3 Year US Treasury Index

The ICE BAML 1-3 Year US Treasury Index tracks the performance of US dollar denominated sovereign debt publicly issued by the US government in its domestic market. Qualifying securities must have at least one year remaining term to final maturity and less than three years remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of $1 billion. Qualifying securities must have at least 18 months to final maturity at the time of issuance. (Index: G1O2. Please visit www.mlindex.ml.com for more information).

ICE BAML 1-5 Year US Treasury & Agency Index

The ICE BAML 1-5 Year US Treasury & Agency Index tracks the performance of US dollar denominated US Treasury and nonsubordinated US agency debt issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch). Qualifying securities must have at least one year remaining term to final maturity and less than five years remaining term to final maturity, at least 18 months to maturity at time of issuance, a fixed coupon schedule and a minimum amount outstanding of $1 billion for sovereigns and $250 million for agencies. (Index: GVA0. Please visit www.mlindex.ml.com for more information).

Source ICE Data Indices, LLC ("ICE"), used with permission. ICE permits the use of ICE Indices and related data on an "as is" basis; ICE, its affiliates and their respective third party suppliers disclaim any and all warranties and representation, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ICE data, its affiliates or their respective third-party providers guarantee the quality, adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an "as is" basis and licensee's use is at licensee's own risk. ICE data, its affiliates and their respective third party do not sponsor, endorse, or recommend Chandler, or any of its products or services.

Local Agency Investment Fund (LAIF)

The California State Local Agency Investment Fund (LAIF) is an investment portfolio managed by the State Treasurer. All securities are purchased under the authority of Government Code Section 16430 and 16480.4 and include securities issued by entities of the US Government, including the US Treasury and Agencies, Corporate debt, Certificates of Deposit, Mortgage Backed Securities and certain loans to the State and state agencies. The average maturity of the Fund will be between 120 days and 18 months.

CHANDLER
ASSET MANAGEMENT

CHANDLER
ASSET MANAGEMENT

INVESTMENT MANAGEMENT AGREEMENT
(Institutional Client, Non-ERISA)

Tahoe Forest Hospital District (Client) hereby retains Chandler Asset Management, Inc. (Chandler) as Investment Adviser on the terms and conditions set forth herein.

1. Term. The term of this Agreement shall commence upon the execution of this Agreement and shall continue until this Agreement is terminated effective upon receipt of notice of termination in writing delivered by the terminating party.

2. Fees. Client shall compensate Chandler monthly an amount calculated on the average market value of Client's portfolio, including accrued interest, in accordance with the following schedule:

Assets Under Management	Annual Investment Management Fee
First $25 million	0.10 of 1% (10 basis points)
Next $25 million	0.08 of 1% (8 basis points)
Assets in excess of $50 million	0.06 of 1% (6 basis points)

The fees expressed above do not include any custody fees that may be charged by Client's bank or other third party custodian.

Fees shall be prorated to the effective date of termination on the basis of actual days elapsed, and any unearned portion of prepaid fees shall be refunded. Client is not required to pay any start-up or closing fees; there are no penalty fees.

Fees shall be deducted monthly in arrears from Client's custody account.

3. Client Representative. In its capacity as investment manager, Chandler shall receive all instructions, directions and other communications on Client's behalf respecting Client's account from Crystal Betts or Jaye Chasseur (Representative). Chandler is hereby authorized to rely and act upon all such instructions, directions and communications from such Representative or any agent of such Representative.

4. Investment Policy. In investing and reinvesting Client's assets, Chandler shall comply with Client's Investment Policy, which is attached hereto as Exhibit A.

5. Authority of Chandler. Chandler is hereby granted full discretion to invest and reinvest all assets under its management in any type of security it deems appropriate, subject to the instructions given or guidelines set by Representative.

6. Notices. All reports and other communications required hereunder to be in writing shall be delivered in person, via electronic mail, or sent by first-class mail postage prepaid, by overnight courier, by confirmed facsimile with original to follow or by confirmed electronic mail with proof of receipt to the addresses set forth below. Either party to this Agreement may, by written notice given at any

time, designate a different address for the receipt of reports and other communications due hereunder.

Chandler Asset Management Attn: Nicole Dragoo 6225 Lusk Boulevard San Diego, CA 92121 ndragoo@chandlerasset.com	Client Representative Tahoe Forest Hospital District 10121 Pine Ave Truckee, CA 96161

7. Electronic Delivery. From time to time, Chandler may be required to deliver certain documents to Client such as account information, notices and required disclosures. Client hereby consents to Chandler's use of electronic means, such as email, to make such delivery. This delivery may include notification of the availability of such document(s) on a website, and Client agrees that such notification will constitute "delivery". Client further agrees to provide Chandler with Client's email address(s) and to keep this information current at all times by promptly notifying Chandler of any change in email address(s).

   Client email address(s): cbetts@tfhd.com; jchasseur@tfhd.com

8. Proxy Voting. Chandler will vote proxies on behalf of Client unless otherwise instructed. Chandler has adopted and implemented written policies and procedures and will provide Client with a description of the proxy voting procedures upon request. Chandler will provide information regarding how Clients' proxies were voted upon request. To request proxy policies or other information, please contact us by mail at the address provided, by calling 800-317-4747 or by emailing your request to info@chandlerasset.com.

9. Custody of Securities and Funds. Chandler shall not have custody or possession of the funds or securities that Client has placed under its management. Client shall appoint a custodian to take and have possession of its assets. Client recognizes the importance of comparing statements received from the appointed custodian to statements received from Chandler. Client recognizes that the fees expressed above do not include fees Client will incur for custodial services.

10. Valuation. Chandler will value securities held in portfolios managed by Chandler no less than monthly. Securities or investments in the portfolio will be valued in a manner determined in good faith by Chandler to reflect fair market value.

11. Investment Advice. Client recognizes that the opinions, recommendations and actions of Chandler will be based on information deemed by it to be reliable, but not guaranteed to or by it. Provided that Chandler acts in good faith, Client agrees that Chandler will not in any way be liable for any error in judgment or for any act or omission, except as may otherwise be provided for under the Federal Securities laws or other applicable laws.

12. Payment of Commissions. Chandler may place buy and sell orders with or through such brokers or dealers as it may select. It is the policy and practice of Chandler to strive for the best price and execution and for commission and discounts which are competitive in relation to the value of the transaction and which comply with Section 28(e) of the Securities and Exchange Act. Nevertheless, it is understood that Chandler may pay a commission on transactions in excess of the amount another

broker or dealer may charge as long it remains reasonable and customary, and that Chandler makes no warranty or representation regarding commissions paid on transactions hereunder.

13. Other Clients. It is further understood that Chandler may be acting in a similar capacity for other institutional and individual clients, and that investments and reinvestments for Client's portfolio may differ from those made or recommended with respect to other accounts and clients even though the investment objectives may be the same or similar. Accordingly, it is agreed that Chandler will have no obligation to purchase or sell for Client's account any securities which it may purchase or sell for other clients.

14. Confidential Relationship. The terms and conditions of this Agreement, and all information and advice furnished by either party to the other shall be treated as confidential and shall not be disclosed to third parties except (i) as required by law, rule, or regulation, (ii) as requested by a regulatory authority, (iii) for disclosures by either party of information that has become public by means other than wrongful conduct by such party or its officers, employees, or other personnel, (iv) for disclosures by either party to its legal counsel, accountants, or other professional advisers, (v) as necessary for Chandler to carry out its responsibilities hereunder, or (vi) as otherwise expressly agreed by the parties.

15. No Assignment& Amendments. Neither party may assign, directly or indirectly, all or part of its rights or obligations under this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed. Any such attempts shall be deemed null and void. This Agreement may be amended at any time by mutual agreement in writing.

16. Governing Law. It is understood that this Agreement shall be governed by and construed under and in accordance with the laws of the State of California. Chandler agrees to abide by all federal, state and local laws in the provision of services under this agreement.

17. Severability. Any provision of this Agreement which is prohibited or unenforceable shall be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof.

18. Receipt of Brochure and Privacy Policy. Client hereby acknowledges receipt of the disclosure statement or "brochure" and "brochure supplement" also known as Part 2A and Part 2B of Form ADV, required to be delivered pursuant to Rule 204-3 of the Investment Advisers Act of 1940 (Brochure). Client further acknowledges receipt of Chandler's Privacy Policy, as required by Regulation S-P.

19. Arbitration. It is agreed that any controversy between Chandler and the Client arising out of Chandler business or this Agreement, shall be submitted to arbitration conducted under the provisions of the commercial arbitration rules of the American Arbitration Association. Arbitration must be commenced by service upon the other party of a written demand for arbitration or a written notice of intention to arbitrate, therein electing the arbitration tribunal. In the event the Client does not make such election within five (5) days of such demand or notice, then the Client authorizes Chandler to do so on the Client's behalf. Judgment upon any award rendered by the arbitrators shall be final and may be entered in any court having jurisdiction thereof. This clause does not constitute a

waiver of any right including the right to choose the forum, whether arbitration or adjudication, in which to seek resolution of disputes.

Client

By: Crystal Betts 05/13/2021 03:41 PM EDT

Date

Name & Title: Crystal Betts, CFO

Chandler Asset Management, Inc.,
a California Corporation

By: 5/13/2021

Nicole Dragoo
COO, Chief Compliance Officer

Date

TAHOE FOREST HOSPITAL DISTRICT
RESOLUTION NO. 2021-01

RESOLUTION TO AUTHORIZE AN AGREEMENT WITH CHANDLER ASSET MANAGEMENT FOR INVESTMENT MANAGEMENT SERVICES

WHEREAS, TAHOE FOREST HOSPITAL DISTRICT ("District") is a hospital district duly organized and existing under the "Local Health Care District Law" of the State of California; and

WHEREAS, District runs a not-for-profit rural health care facility and designated critical access hospital providing service to the communities of Truckee, North Lake Tahoe, Donner Summit, the Sierra Valley in California, and Incline Village in Nevada: and

WHEREAS, The District desires to engage an investment manager to invest and manage the District's investment funds in accordance with California Government Code § 53600 et seq. and the District's Investment Policy; and

WHEREAS, The District conducted a search for a fixed income investment manager with experience managing healthcare and other public sector funds; and

WHEREAS, it is determined by the District that Chandler Asset Management meets the District's needs; and

WHEREAS, it is necessary to enter into an agreement with Chandler Asset Management for the purposes of providing investment management services for the District.

NOW, THEREFORE, BE IT RESOLVED the Board of Directors of the Tahoe Forest Hospital District hereby authorize the President and Chief Executive Officer, or his/her designee, to execute and attest to an agreement between the TAHOE FOREST HOSPITAL DISTRICT and Chandler Asset Management for investment management services for the District's operating funds.

PASSED AND ADOPTED at the meeting of the Tahoe Forest Hospital District Board of Directors held on the 15th day of June, 2021 by the following vote:

AYES: ____

NOES: ____

ABSENT: ____

ABSTAIN: ____

ATTEST:

Alyce Wong Chair, Board of Directors Tahoe Forest Hospital District	Art King Secretary, Board of Directors Tahoe Forest Hospital District

PURPOSE:

The purpose of this policy is to establish Tahoe Forest Hospital District cash investment objectives, authority and responsibility, approval, instrument limitations (Appendix A, California Health & Safety Code Section 32127), concentrations, terms, reporting, judgment and care, and District Treasurer's, Chief Executive Officer and Chief Financial Officer (CFO) liability for all of its funds.

This investment policy was endorsed and adopted by the District's Board of Directors and is effective as of the ______ day of ____________, 20XX, and replaces any previous versions.

SCOPE:

This policy covers all funds and investment activities under the direct authority of the District, as set forth in the State Government Code, Sections 53600 et seq., with the following exceptions:

- Proceeds of debt issuance shall be invested in accordance with the District's general investment philosophy as set forth in this policy; however, such proceeds are to be invested pursuant to the permitted investment provisions of their specific bond indentures.
- Any other funds specifically exempted by the Board.

POOLING OF FUNDS:

Except for cash in certain restricted and special funds, the District will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

POLICY:

1. **OBJECTIVE**
   The District's investment objective is to maximize the return on invested cash while minimizing risk of capital loss, providing sufficiently liquidity to meet all operating requirements that may be reasonably anticipated, and adhering to the investment policy as allowed for herein.

2. **AUTHORITY AND RESPONSIBILITY**
   The Board of Directors is responsible for the management of the District's funds, including the administration of this investment policy. The District Treasurer shall have the authority and responsibility to purchase and invest prudently. The Chief Executive Officer is delegated the authority and responsibility by the District Treasurer to purchase and invest within the limitations defined below. Pursuant to California Government Code, Section 53600.3, all persons authorized to make investment decisions on behalf of the District are trustees and therefore fiduciaries subject to the Prudent Investor Standard:

   "…all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. 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."

   The District may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the District's investment portfolio in a manner consistent with the District's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with

Commented [CM1]: Added effective date language.

Commented [CM2]: Included Scope and Pooling of Funds to be in line with industry best practices.

Commented [CM3]: Included "liquidity" in the Objectives in addition to "safety" and "return" to be consistent with CA Code.

Commented [CM4]: Recommend the inclusion of language detailing the Fiduciary responsibility of the Board of Directors of the management of the District's assets and the inclusion of Prudent Investor Language under Authority and Responsibility section per best practices.

this investment policy.

~~3 APPROVAL~~

~~The CFO will investigate and recommend investments within the guidelines of this policy but must have approval from the District Treasurer or Chief Executive Officer to implement investments.~~

LIMITATIONS ON INSTRUMENTS

The District shall adopt and use California Health & Safety Code Section 32127 as the limitation on instruments of investment. Refer to Appendix A.

PROCEDURE:

A. **CONCENTRATION OF INVESTMENTS**

1. Unlimited investments in the State Of California Local Agency Investment Fund.
2. Unlimited investment in the U.S. Government guaranteed investments.
3. Sufficient principal funds in any single bank or savings should comply with the regulatory collateralization requirements.
   No more than ~~$100,000~~$250,000 principal in any single bank or savings and loan association with insurance through FDIC or FSLIC, when FDIC or FSLIC is applicable.
4. Banks or savings and loan associations must also have consistently profitable operations, and must have net worth ratios which exceed their regulatory requirements.
~~4.~~5. No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer except US Treasuries, agencies, supranationals, LAIF, money market mutual funds, mutual funds, or unless otherwise specified in this investment policy.
~~5. No more than $1,000,000 in any one corporation or diversified management company.~~

B. **TERMS OF INVESTMENTS**

1. Limited to the terms specified in Government Code Section 53601 or if not specified:
2. Maximum terms of any investment to ~~be one and one half (1 1/2)~~5 years.
3. Board of Directors' approval required for terms in excess of ~~1 and 2 above~~5 years for Treasuries, Agencies or Municipal Securities.
4. Investments must be redeemable prior to maturity, even if with a penalty, or salable in an established secondary market.

C. **REPORTING**

The District Treasurer or CFO shall report, at a minimum, the following ~~periodically~~ to the Board of Directors of the District: ~~showing the type of investment, institution, date purchased, date of maturity, amount of deposit and rate of interest~~ the following: .

MONTHLY REPORTS

Monthly transaction reports will be submitted by the Treasurer to the Board of Directors within 30 days of the end of the reporting period in accordance with California Government Code Section 53607.

QUARTERLY REPORTS

The Treasurer will submit a quarterly investment report to the Board of Directors which provides full disclosure of the District's investment activities within 30 days after the end of the quarter. These reports will disclose, at a minimum, the following information about the District's portfolio:

- An asset listing showing par value, cost and independent third-party fair market value of each security as of the date of the report, the source of the valuation, type of investment, issuer, maturity date and interest rate.

- Transactions for the period.

Commented [CM5]: Recommend adding language to allow for the District to engage the services of an outside investment manager.

Commented [CM6]: Recommend removing this section as the discretion over transactions can be delegated to an external investment adviser.

Commented [CM7]: Recommend updating the amount of FDIC coverage from $100,000 to $250,000.

Commented [CM8]: Recommend updating investment limitation to 5% per issuer, except in US treasuries, agencies, supranationals, LAIF, MMFs, mutual funds, or as referenced in Appendix A.

Commented [CM9]: Recommend adjusting maximum maturities to 5 years unless approved by the Board to be in line with CA Code.

- A description of the funds, investments and programs (including lending programs) managed by contracted parties (i.e. LAIF; investment pools, outside money managers and securities lending agents)

- A one-page summary report that shows:

  - Average maturity of the portfolio and modified duration of the portfolio;

  - Maturity distribution of the portfolio;

  - Percentage of the portfolio represented by each investment category;

  - Average portfolio credit quality; and,

  - Time-weighted total rate of return for the portfolio for the prior one month, three months, twelve months and since inception compared to the District's market benchmark returns for the same periods;

- A statement of compliance with investment policy, including a schedule of any transactions or holdings which do not comply with this policy or with the California Government Code, including a justification for their presence in the portfolio and a timetable for resolution.

- A statement that the District has adequate funds to meet its cash flow requirements for the next six months.

ANNUAL REPORTS

A comprehensive annual report will be presented to the Board of Directors. This report will include comparisons of the District's return to the market benchmark return, suggest policies and improvements that might enhance the investment program, and will include an investment plan for the coming year.

Commented [GL10]: Recommend updating reporting language to be in line with best practices and CA Code.

D. REVIEW OF INVESTMENT POLICY

The investment policy will be reviewed and adopted at least annually within 120 days of the end of the fiscal year, to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

Any recommended modifications or amendments shall be presented by Staff to the Board of Directors for their consideration and adoption.

Commented [CM11]: Included annual investment policy review language.

E. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

~~C.~~

To the extent practicable, the Treasurer shall endeavor to complete investment transactions using a competitive bid process whenever possible. The District's Treasurer will determine which financial institutions are authorized to provide investment services to the District. It shall be the District's policy to purchase securities only from authorized institutions and firms. ~~All persons authorized to make investment decisions on behalf of the District (investing public funds) are trustees and therefore fiduciaries subject to the prudent investor standard. When investing,~~

~~reinvesting, purchasing, acquiring, exchanging, selling, or managing funds, the 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.~~
The Treasurer shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions which are approved for investment purposes that are selected through a process of due diligence as determined by the District. Due inquiry shall determine whether such authorized broker/dealers, and the individuals covering the District are reputable and trustworthy, knowledgeable, and experienced in Public Agency investing and able to meet all of their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

In accordance with Section 53601.5, institutions eligible to transact investment business with the District include:

- Institutions licensed by the state as a broker-dealer.
- Institutions that are members of a federally regulated securities exchange.
- Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
- Nationally or state-chartered banks.
- The Federal Reserve Bank.
- Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the District, except where the District utilizes an external investment adviser in which case the District may rely on the adviser for selection.

All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the Treasurer with audited financials and a statement certifying that the institution has reviewed the California Government Code, Section 53600 et seq. and the District's investment policy. The Treasurer will conduct an annual review of the financial condition and registrations of such qualified bidders.

Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

Selection of broker/dealers used by an external investment adviser retained by the District will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price

F. **DELIVERY, SAFEKEEPING AND CUSTODY**
DELIVERY-VERSUS-PAYMENT (DVP). All investment transactions shall be conducted on a

Commented [CM12]: Recommend remove language on "prudent person" investing, replaced by "prudent investor" in section 2 of the "POLICY" section. Replaced with language on Authorized Broker Dealers, etc to be in line with Best Practices.

delivery-versus-payment basis.

SAFEKEEPING AND CUSTODY. To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments, and maturity proceeds, all cash and securities in the District's portfolio shall be held in safekeeping in the District's name by a third party custodian, acting as agent for the District under the terms of a custody agreement executed by the bank and the District. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by the District from the custodian listing all the securities held in safekeeping with current market data and other information.

The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit; and (iii) mutual funds and money market mutual funds, since these securities are not deliverable.

Commented [GL13]: Added a section requiring transactions to be conducted on a delivery-versus-payment (DVP) basis and that securities be safekept at a third party custodian in the name of the District wherever possible per best practices.

~~D.~~G. **DISTRICT TREASURER LIABILITY**

When the District funds are invested in accordance with this Statement Of Investment Policy, the District Treasurer shall not be liable for any loss resulting from the default or insolvency of an authorized depository in the absence of negligence, malfeasance, misfeasance or nonfeasance on the part of the Treasurer.

~~E.~~H. **CFO AND CHIEF EXECUTIVE OFFICER PERFORMANCE**

As experts in the field of finance, healthcare and hospital operations, the CFO and Chief Executive Officer are expected to guide, recommend and provide oversight to the Treasurer, Board Finance Committee and Directorship in all matters related to investment activities. It is incumbent upon these above mentioned employees to ensure that all investments suggested and/or executed are in compliance with all applicable California State law, code, regulation and procedure, all federal laws and District policy. Any and all deviation from law or policy shall be brought to the immediate attention of the Treasurer, the Board Finance Committee and brought through the Board of Directors.

LIMITATION ON INSTRUMENTS

APPENDIX A

A. The District shall adopt and use the following as the limitation on instruments of investment.
B. California Health & Safety Code Section 32127, which outlines the duties of the Treasurer of the District, provides generally that any monies in the treasury of the District may be deposited in accordance with the provisions of the general laws of the State of California governing the deposit of public monies of cities or counties. That provision is supplemented by the provisions of Government Code Section 53600, et seq. which deals with investment of funds by local agencies.
C. Government Code Section 53601 provides that the legislative body of a local agency having money in a sinking fund or surplus money in its treasury not required for immediate necessities of the local agency may invest in the following categories based on Government Code Section 53601 ~~beginning in 1992 with 1995, 1996 and 2002 Amendments~~.
    1. Bonds issued by the District;
    2. U.S. Treasury Notes, bonds or certificates of indebtedness;
    3. Warrants, treasury notes or bonds issued by the State of California or by any department, board, agency or authority of the state;
    4. Bonds, notes, warrants or other evidences of indebtedness of any local agency in California;
    5. Obligations, participation or other instruments of, or issued by, a federal agency including Federal Home Loan Bank ~~Board~~ (FHLB~~B~~), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA). No more than 30% of the portfolio may be invested in any single Agency/GSE issuer. The maximum percent of agency callable securities in the portfolio will be 20%.
    6. Bankers' acceptances provided that such documents may not exceed 180 days maturity and no more than 30 percent of surplus funds may be invested in the bankers' acceptances of any one commercial bank and 40 percent of the surplus funds total in such investments;

Commented [CM14]: Recommend limiting Agency investments to maximum 30% per issuer and a 20% limit on callable Agencies.

7. Commercial paper of prime quality or the highest rating by Moody's or Standard and Poor's, ("A-1" or higher) provided that issuing corporations must have total assets in excess of $500,000,000. Purchases of eligible commercial paper may not exceed 270 days maturity or represent more than 10 percent of the outstanding paper of any issuing corporation, and purchases of commercial paper may not exceed 25 percent of the agency's surplus money.
8. Negotiable certificates of deposit issued by nationally or state chartered banks or savings and loan associations or state license branches of a foreign bank, provided that purchases of negotiable certificates of deposit may not exceed 30 percent of the agency's surplus money (and certificates of deposit may not exceed the shareholder's equity of any depository bank or the total net worth of any depository savings and loan association);
9. Repurchase agreements or reverse repurchase agreements of any securities authorized by Section 53601, provided the term of repurchase agreements shall be one year or less.
10. Medium-term notes with a maximum remaining maturity of five years 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 in a rating category of "A" or its equivalent or better by a nationally recognized statistical rating organization (NRSRO)~~service~~. Purchases of medium-term notes may not exceed 30 percent of the agency's surplus money which may be invested pursuant to this section.

Commented [GL15]: Defined "NRSRO" then abbreviated hereafter.

11. (1) Shares of beneficial interest issued by diversified management companies, investing in the securities and obligations as authorized by subdivisions (a) to (k) inclusive, or subdivision (m) to (q), inclusive, of Government Code section 53601, and which comply with the investment restriction of Article 1 (commencing with Section 53600) and Article 2 (commencing with Section 53630). (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. To be eligible for investment pursuant to paragraph (1)~~this subdivision~~, these companies shall either: (A~~1~~) Attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest NRSRO~~nationally recognized rating service~~s, or (B~~2~~) Have an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations as authorized by subdivisions (a) to (k), inclusive or subdivisions (m) to (q), inclusive, of Government Code section 53601 and with asset under management in excess of $500,000,000. (4) If investment is in shares issued pursuant to paragraph (2), the company shall have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs. (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500,000,000. The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that these companies may charge and shall not exceed 20 percent of the agency's surplus money which may be invested pursuant to this section. However no more than 10 percent of the surplus funds may be invested in shares of beneficial interest of any one mutual fund and no more than 20% may be invested in any one money market mutual fund pursuant to this paragraph.

Commented [GL16]: Included money market mutual funds in the permitted investments.

12. Notwithstanding anything to the contrary contained in this section, Section 53635 or any other provision of law, monies 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 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.
13. Notes, bonds or other obligations which 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 which is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirement of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

14. Any mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision may not exceed 20 percent of the District's surplus money that may be invested pursuant to this section.

15. Supranational issues that are US 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. The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO. No more than 30% of the total portfolio may be invested in these securities and no more than 10% of the portfolio may be invested in any single issuer.

~~15.~~16. Prohibited from borrowing short-term and using these funds to invest in long-term securities.

~~16.~~17. The District shall not invest in inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity. Under a provision sunsetting on January 1, 2026, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted.

18. The District shall not invest any funds in any security that could result in zero interest accrual if held to maturity. However, a local agency may hold prohibited instruments until their maturity dates. The limitation shall not apply to the District investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, and following) that are authorized for investment pursuant to subdivision (k) of Section 53601.

Commented [CM17]: Recommend adding Supranationals to the list of approved investments.

Commented [CM18]: Recommend adding language from SB 998, which became effective 1/1/21.

GLOSSARY OF INVESTMENT TERMS

Commented [CM19]: Recommend adding a Glossary of Investment Terms.

AGENCIES. Shorthand market terminology for any obligation issued by a government-sponsored entity (GSE), or a federally related institution. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called "Freddie Mac" issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and Freddie Mac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "Fannie Mae," issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as "Ginnie Mae," issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER'S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline, the issuer will likely call its current securities and reissue them at a lower rate of interest.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED BANK DEPOSIT. A bank deposit that is collateralized at least 100% (principal plus interest to maturity). The deposit is collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

COLLATERALIZED TIME DEPOSIT. Time deposits that are collateralized at least 100% (principal plus interest to maturity). These instruments are collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

DEBENTURE. A bond secured only by the general credit of the issuer.

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a security to changes interest rates.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC). The Federal Deposit Insurance Corporation (FDIC) is an independent federal agency insuring deposits in U.S. banks and thrifts in the event of bank failures. The FDIC was created in 1933 to maintain public confidence and encourage stability in the financial system through the promotion of sound banking practices.

FEDERALLY INSURED TIME DEPOSIT. A time deposit is an interest-bearing bank deposit account that has a specified date of maturity, such as a certificate of deposit (CD). These deposits are limited to funds insured in accordance with FDIC insurance deposit limits.

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL AGENCY INVESTMENT FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MATURITY. The final date upon which the principal of a security becomes due and payable.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100-basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MONEY MARKET MUTUAL FUND. A mutual fund that invests exclusively in short-term securities. Examples of investments in money market funds are certificates of deposit and U.S. Treasury securities. Money market funds attempt to keep their net asset values at $1 per share.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO).

A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CERTIFICATE OF DEPOSIT (CD). A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

SECURITIES AND EXCHANGE COMMISSION (SEC). The U.S. Securities and Exchange Commission (SEC) is an independent federal government agency responsible for protecting investors, maintaining fair and orderly functioning of securities markets and facilitating capital formation. It was created by Congress in 1934 as the first federal regulator of securities markets. The SEC promotes full public disclosure, protects investors against fraudulent and manipulative practices in the market, and monitors corporate takeover actions in the United States.

SECURITIES AND EXCHANGE COMMISSION SEC) RULE 15C3-1. An SEC rule setting capital requirements for brokers and dealers. Under Rule 15c3-1, a broker or dealer must have sufficient liquidity in order to cover the most pressing obligations. This is defined as having a certain amount of liquidity as a percentage of the broker/dealer's total obligations. If the percentage falls below a certain point, the broker or dealer may not be allowed to take on new clients and may have restrictions placed on dealings with current client.

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.

PURPOSE:

The purpose of this policy is to establish Tahoe Forest Hospital District cash investment objectives, authority and responsibility, approval, instrument limitations (Appendix A, California Health & Safety Code Section 32127), concentrations, terms, reporting, judgment and care, and District Treasurer's, Chief Executive Officer and Chief Financial Officer (CFO) liability for all of its funds.

This investment policy was endorsed and adopted by the District's Board of Directors and is effective as of the ______ day of ____________, 20XX, and replaces any previous versions.

SCOPE:

This policy covers all funds and investment activities under the direct authority of the District, as set forth in the State Government Code, Sections 53600 et seq., with the following exceptions:

- Proceeds of debt issuance shall be invested in accordance with the District's general investment philosophy as set forth in this policy; however, such proceeds are to be invested pursuant to the permitted investment provisions of their specific bond indentures.
- Any other funds specifically exempted by the Board.

POOLING OF FUNDS:

Except for cash in certain restricted and special funds, the District will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

POLICY:

1. **OBJECTIVE**
   The District's investment objective is to maximize the return on invested cash while minimizing risk of capital loss, providing sufficiently liquidity to meet all operating requirements that may be reasonably anticipated, and adhering to the investment policy as allowed for herein.

2. **AUTHORITY AND RESPONSIBILITY**
   The Board of Directors is responsible for the management of the District's funds, including the administration of this investment policy. The District Treasurer shall have the authority and responsibility to purchase and invest prudently. The Chief Executive Officer is delegated the authority and responsibility by the District Treasurer to purchase and invest within the limitations defined below. Pursuant to California Government Code, Section 53600.3, all persons authorized to make investment decisions on behalf of the District are trustees and therefore fiduciaries subject to the Prudent Investor Standard:

   "…all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. 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."

   The District may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the District's investment portfolio in a manner consistent with the District's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

LIMITATIONS ON INSTRUMENTS

The District shall adopt and use California Health & Safety Code Section 32127 as the limitation on instruments of investment. Refer to Appendix A.

PROCEDURE:

A. **CONCENTRATION OF INVESTMENTS**
1. Unlimited investments in the State Of California Local Agency Investment Fund.
2. Unlimited investment in the U.S. Government guaranteed investments.
3. Sufficient principal funds in any single bank or savings should comply with the regulatory collateralization requirements.
   No more than $250,000 principal in any single bank or savings and loan association with insurance through FDIC or FSLIC, when FDIC or FSLIC is applicable.
4. Banks or savings and loan associations must also have consistently profitable operations, and must have net worth ratios which exceed their regulatory requirements.
5. No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer except US Treasuries, agencies, supranationals, LAIF, money market mutual funds, mutual funds, or unless otherwise specified in this investment policy.

B. **TERMS OF INVESTMENTS**
1. Limited to the terms specified in Government Code Section 53601 or if not specified:
2. Maximum terms of any investment to 5 years.
3. Board of Directors' approval required for terms in excess of 5 years for Treasuries, Agencies or Municipal Securities.
4. Investments must be redeemable prior to maturity, even if with a penalty, or salable in an established secondary market.

C. **REPORTING**

The District Treasurer or CFO shall report, at a minimum, the following to the Board of Directors of the District:

MONTHLY REPORTS

Monthly transaction reports will be submitted by the Treasurer to the Board of Directors within 30 days of the end of the reporting period in accordance with California Government Code Section 53607.

QUARTERLY REPORTS

The Treasurer will submit a quarterly investment report to the Board of Directors which provides full disclosure of the District's investment activities within 30 days after the end of the quarter. These reports will disclose, at a minimum, the following information about the District's portfolio:

• An asset listing showing par value, cost and independent third-party fair market value of each security as of the date of the report, the source of the valuation, type of investment, issuer, maturity date and interest rate.

• Transactions for the period.

• A description of the funds, investments and programs (including lending programs) managed by contracted parties (i.e. LAIF; investment pools, outside money managers and securities lending agents)

• A one-page summary report that shows:

o Average maturity of the portfolio and modified duration of the portfolio;

- Maturity distribution of the portfolio;

- Percentage of the portfolio represented by each investment category;

- Average portfolio credit quality; and,

- Time-weighted total rate of return for the portfolio for the prior one month, three months, twelve months and since inception compared to the District's market benchmark returns for the same periods;

• A statement of compliance with investment policy, including a schedule of any transactions or holdings which do not comply with this policy or with the California Government Code, including a justification for their presence in the portfolio and a timetable for resolution.

• A statement that the District has adequate funds to meet its cash flow requirements for the next six months.

ANNUAL REPORTS

A comprehensive annual report will be presented to the Board of Directors. This report will include comparisons of the District's return to the market benchmark return, suggest policies and improvements that might enhance the investment program, and will include an investment plan for the coming year.

D. **REVIEW OF INVESTMENT POLICY**

The investment policy will be reviewed and adopted at least annually within 120 days of the end of the fiscal year, to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

Any recommended modifications or amendments shall be presented by Staff to the Board of Directors for their consideration and adoption.

E. **AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS**

To the extent practicable, the Treasurer shall endeavor to complete investment transactions using a competitive bid process whenever possible. The District's Treasurer will determine which financial institutions are authorized to provide investment services to the District. It shall be the District's policy to purchase securities only from authorized institutions and firms. The Treasurer shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions which are approved for investment purposes that are selected through a process of due diligence as determined by the District. Due inquiry shall determine whether such authorized broker/dealers, and the individuals covering the District are reputable and trustworthy, knowledgeable, and experienced in Public Agency investing and able to meet all of their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

In accordance with Section 53601.5, institutions eligible to transact investment business with the

District include:

- Institutions licensed by the state as a broker-dealer.

- Institutions that are members of a federally regulated securities exchange.

- Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.

- Nationally or state-chartered banks.

- The Federal Reserve Bank.

- Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the District, except where the District utilizes an external investment adviser in which case the District may rely on the adviser for selection.

All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the Treasurer with audited financials and a statement certifying that the institution has reviewed the California Government Code, Section 53600 et seq. and the District's investment policy. The Treasurer will conduct an annual review of the financial condition and registrations of such qualified bidders.

Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

Selection of broker/dealers used by an external investment adviser retained by the District will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price

F. **DELIVERY, SAFEKEEPING AND CUSTODY**

DELIVERY-VERSUS-PAYMENT (DVP). All investment transactions shall be conducted on a delivery-versus-payment basis.

SAFEKEEPING AND CUSTODY. To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments, and maturity proceeds, all cash and securities in the District's portfolio shall be held in safekeeping in the District's name by a third party custodian, acting as agent for the District under the terms of a custody agreement executed by the bank and the District. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by the District from the custodian listing all the securities held in safekeeping with current market data and other information.

The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit; and (iii) mutual funds and money market mutual funds, since these securities are not deliverable.

G. **DISTRICT TREASURER LIABILITY**

When the District funds are invested in accordance with this Statement Of Investment Policy, the

District Treasurer shall not be liable for any loss resulting from the default or insolvency of an authorized depository in the absence of negligence, malfeasance, misfeasance or nonfeasance on the part of the Treasurer.

H. **CFO AND CHIEF EXECUTIVE OFFICER PERFORMANCE**
As experts in the field of finance, healthcare and hospital operations, the CFO and Chief Executive Officer are expected to guide, recommend and provide oversight to the Treasurer, Board Finance Committee and Directorship in all matters related to investment activities. It is incumbent upon these above mentioned employees to ensure that all investments suggested and/or executed are in compliance with all applicable California State law, code, regulation and procedure, all federal laws and District policy. Any and all deviation from law or policy shall be brought to the immediate attention of the Treasurer, the Board Finance Committee and brought through the Board of Directors.

LIMITATION ON INSTRUMENTS

APPENDIX A

A. The District shall adopt and use the following as the limitation on instruments of investment.
B. California Health & Safety Code Section 32127, which outlines the duties of the Treasurer of the District, provides generally that any monies in the treasury of the District may be deposited in accordance with the provisions of the general laws of the State of California governing the deposit of public monies of cities or counties. That provision is supplemented by the provisions of Government Code Section 53600, et seq. which deals with investment of funds by local agencies.
C. Government Code Section 53601 provides that the legislative body of a local agency having money in a sinking fund or surplus money in its treasury not required for immediate necessities of the local agency may invest in the following categories based on Government Code Section 53601.
    1. Bonds issued by the District;
    2. U.S. Treasury Notes, bonds or certificates of indebtedness;
    3. Warrants, treasury notes or bonds issued by the State of California or by any department, board, agency or authority of the state;
    4. Bonds, notes, warrants or other evidences of indebtedness of any local agency in California;
    5. Obligations, participation or other instruments of, or issued by, a federal agency including Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA). No more than 30% of the portfolio may be invested in any single Agency/GSE issuer. The maximum percent of agency callable securities in the portfolio will be 20%.
    6. Bankers' acceptances provided that such documents may not exceed 180 days maturity and no more than 30 percent of surplus funds may be invested in the bankers' acceptances of any one commercial bank and 40 percent of the surplus funds total in such investments;
    7. Commercial paper of prime quality or the highest rating by Moody's or Standard and Poor's, ("A-1" or higher) provided that issuing corporations must have total assets in excess of $500,000,000. Purchases of eligible commercial paper may not exceed 270 days maturity or represent more than 10 percent of the outstanding paper of any issuing corporation, and purchases of commercial paper may not exceed 25 percent of the agency's surplus money.
    8. Negotiable certificates of deposit issued by nationally or state chartered banks or savings and loan associations or state license branches of a foreign bank, provided that purchases of negotiable certificates of deposit may not exceed 30 percent of the agency's surplus money (and certificates of deposit may not exceed the shareholder's equity of any depository bank or the total net worth of any depository savings and loan association);
    9. Repurchase agreements or reverse repurchase agreements of any securities authorized by Section 53601, provided the term of repurchase agreements shall be one year or less.
    10. Medium-term notes with a maximum remaining maturity of five years 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 in a rating category of "A" or

its equivalent or better by a nationally recognized statistical rating organization (NRSRO). Purchases of medium-term notes may not exceed 30 percent of the agency's surplus money which may be invested pursuant to this section.

11. (1) Shares of beneficial interest issued by diversified management companies, investing in the securities and obligations as authorized by subdivisions (a) to (k) inclusive, or subdivision (m) to (q), inclusive, of Government Code section 53601, and which comply with the investment restriction of Article 1 (commencing with Section 53600) and Article 2 (commencing with Section 53630). (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. To be eligible for investment pursuant to paragraph (1), these companies shall either: (A) Attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest NRSROs, or (B) Have an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations as authorized by subdivisions (a) to (k), inclusive or subdivisions (m) to (q), inclusive, of Government Code section 53601 and with asset under management in excess of $500,000,000. (4) If investment is in shares issued pursuant to paragraph (2), the company shall have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs. (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500,000,000. The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that these companies may charge and shall not exceed 20 percent of the agency's surplus money which may be invested pursuant to this section. However no more than 10 percent of the surplus funds may be invested in shares of beneficial interest of any one mutual fund and no more than 20% may be invested in any one money market mutual fund pursuant to this paragraph.
12. Notwithstanding anything to the contrary contained in this section, Section 53635 or any other provision of law, monies 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 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.
13. Notes, bonds or other obligations which 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 which is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirement of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.
14. Any mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision may not exceed 20 percent of the District's surplus money that may be invested pursuant to this section.
15. Supranational issues that are US 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. The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO. No more than 30% of the total portfolio may be invested in these securities and no more than 10% of the portfolio may be invested in any single issuer.

16. Prohibited from borrowing short-term and using these funds to invest in long-term securities.
17. The District shall not invest in inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity. Under a provision sunsetting on January 1, 2026, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted.
18. The District shall not invest any funds in any security that could result in zero interest accrual if held to maturity. However, a local agency may hold prohibited instruments until their maturity dates. The limitation shall not apply to the District investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, and following) that are authorized for investment pursuant to subdivision (k) of Section 53601.

GLOSSARY OF INVESTMENT TERMS

AGENCIES. Shorthand market terminology for any obligation issued by a government-sponsored entity (GSE), or a federally related institution. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called "Freddie Mac" issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and Freddie Mac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "Fannie Mae," issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as "Ginnie Mae," issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER'S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline, the issuer will likely call its current securities and reissue them at a lower rate of interest.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED BANK DEPOSIT. A bank deposit that is collateralized at least 100% (principal plus interest to maturity). The deposit is collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

COLLATERALIZED TIME DEPOSIT. Time deposits that are collateralized at least 100% (principal plus interest to maturity). These instruments are collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

DEBENTURE. A bond secured only by the general credit of the issuer.

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a security to changes interest rates.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC). The Federal Deposit Insurance Corporation (FDIC) is an independent federal agency insuring deposits in U.S. banks and thrifts in the event of bank failures. The FDIC was created in 1933 to maintain public confidence and encourage stability in the financial system through the promotion of sound banking practices.

FEDERALLY INSURED TIME DEPOSIT. A time deposit is an interest-bearing bank deposit account that has a specified date of maturity, such as a certificate of deposit (CD). These deposits are limited to funds insured in accordance with FDIC insurance deposit limits.

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL AGENCY INVESTMENT FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MATURITY. The final date upon which the principal of a security becomes due and payable.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100-basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MONEY MARKET MUTUAL FUND. A mutual fund that invests exclusively in short-term securities. Examples of investments in money market funds are certificates of deposit and U.S. Treasury securities. Money market funds attempt to keep their net asset values at $1 per share.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO).

A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CERTIFICATE OF DEPOSIT (CD). A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

SECURITIES AND EXCHANGE COMMISSION (SEC). The U.S. Securities and Exchange Commission (SEC) is an independent federal government agency responsible for protecting investors, maintaining fair and orderly functioning of securities markets and facilitating capital formation. It was created by Congress in 1934 as the first federal regulator of securities markets. The SEC promotes full public disclosure, protects investors against fraudulent and manipulative practices in the market, and monitors corporate takeover actions in the United States.

SECURITIES AND EXCHANGE COMMISSION SEC) RULE 15C3-1. An SEC rule setting capital requirements for brokers and dealers. Under Rule 15c3-1, a broker or dealer must have sufficient liquidity in order to cover the most pressing obligations. This is defined as having a certain amount of liquidity as a percentage of the broker/dealer's total obligations. If the percentage falls below a certain point, the broker or dealer may not be allowed to take on new clients and may have restrictions placed on dealings with current client.

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.