

Investment Policy Amendments



Finance Committee
August 9, 2017

Policies

- NCPA Investment Policy and Guidelines
 - Updated 11-2016
 - Development & implementation of investment policy review
 - Approval of the investment strategies and policy compliance
 - Must comply first and foremost with the California Govt Code Section 53600 and 53635 et seq.
- or
- Respective Bond Indentures

Objectives

1. *Safety*: To safeguard the principal over which they have been granted stewardship
2. *Liquidity*: To provide for liquidity- i.e., they must assure there is sufficient cash to meet the needs of the entity
3. *Yield*: To earn a reasonable market rate of return

General Observations

1. Policy more conservative than state code
 - Medium-term Corporate Notes allowed by government code but not NCPA's Investment Policy
 - All funds are invested in cash, LAIF, or Federal Agencies
 - Callable restriction on Federal Agencies
2. Maximum maturity limits within fund objectives
 - Operating account limited to one year
 - Geo Decom Reserve limited to five years
3. A little too liquid
 - As of June, \$80+ million in cash or LAIF

Operating Account Observations

- Surplus Liquidity (previous 30 monthly periods)
 - Largest one-month disbursement: (\$7.1m)
 - Largest consecutive months disbursements: (\$13.1m)
 - Lowest - Largest cash balance: \$36.7m - \$63.5m
 - Average cash balance: \$48.5m
 - Monthly disbursements range between \$25-\$35 million

Geo. Decom. Reserve Observations

- Surplus Liquidity (previous 30 monthly periods)
 - No negative cash flow in last 30 periods
 - Cash balance has grown from \$1m to \$5m (through June)
- Duration
 - Average days to maturity is 952 days (or 2.6 years) with no near-term liquidity needs
 - Extended since Sondra took over
 - 0.61% to 1.29% return on investment

Policy Amendment Recommendations

- Investment Policy equals the State Code
 - Add medium term corporate notes to match government code
 - Add C.A.M.P. as a permitted investment
 - Remove callable restriction on Federal Agencies
 - Adjust maturity restriction on Operating Fund
 - Rating requirement to at least one NRSRO
- Maximum Maturity
 - Allow Geo Decom Reserve limit of ten years
- Minor Language Changes
 - Formatting, duplicative statements or footnote adjustments

Purpose of Policy Amendments

- Update fund investment objectives (maximum maturity)
 - Identify historical and future cash flow
 - *Set each portfolio with appropriate duration risk*
- Liquidity adjustment
 - Adjust liquidity levels that match historical and future cash flows
 - *Being too liquid minimizes potential returns*
- Diversification
 - Buying various, high-grade securities that match the State code
 - *Not putting all your eggs in one basket*

Outcome of Policy Amendments

- Investment Plan
 - Each portfolio is unique in some way
 - Create a written investment plan around each portfolio
- Investment Strategy (*Rule Book to Play Book*)
 - Adequate liquidity to meet current obligations
 - Strategy for optimizing income without violating the risk constraints of the policy
 - Diversified portfolios with the use of other permitted investments such as treasuries and corporate bonds

Following the state code equals \$425k - \$625k in new income and reduced member costs

Recommendation

- It is recommended that the Commission approve Resolution 17-XX. The resolution includes changes to the NCPA Investment Policy No. 200-100 as follows: 1) minor language clean-up; 2) updates to the Permitted Investments attachment; 3) changes to the Investment Fund Objectives attachment; and 4) updates to the Authorized Financial Institutions attachment.

