INVESTMENT POLICY

I. Introduction

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic Investment Policy and to organize and formalize investment-related activities.

The investment policies and practices of School Risk and Insurance Management Group ("the Group") are based on state law and prudent money management.

II. Scope

It is intended that this Policy cover all funds (except retirement funds) and investment activities under the direction of the Group.

III. Prudence

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. The prudent investor standard states that:

"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."

Investment officers acting in accordance with written procedures and the Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

IV. Objectives

The primary objectives, in priority order, of the investment activities of the Group shall be:

1) **Safety**. Safety of principal is the foremost objective of the investment program. Investments of the Group shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.

2) **Liquidity**. The investment portfolio of the Group will remain sufficiently liquid to enable the Group to meet its cash flow requirements.

3) **Return on Investment**. The investment portfolio of the Group shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

V. Delegation of Authority

The management responsibility for the investment program is hereby delegated to the Executive Director who shall monitor and review all investments for consistency with this Investment Policy. No person may engage in an investment transaction except as provided under the limits of this Policy. The Group may delegate its investment decision making and execution authority to an investment advisor. The advisor shall follow the Policy and such other written instructions as are provided.

VI. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

VII. Permitted Investment Instruments

With the exception of 1, 2, 5, and 17 below and pooled investments such as the Placer County Treasurer's Investment Portfolio and money market funds, no more than 5% par value of the portfolio should be invested in any one issuer regardless of sector.

1. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
2. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
3. Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled or operated by the state or any local agency or by a department, board, agency or authority of the state or any local agency, provided that the obligations are rated at least "A" for long-term or "A-1" for short-term securities or its equivalent by a nationally recognized statistical-rating organization. Obligations issued by SIG member districts are prohibited.
4. Registered treasury notes or bonds of any of the other 49 United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California, provided that the obligations are rated at least "A" for long-term or "A-1" for short-term securities or its equivalent by a nationally recognized statistical-rating organization.
5. Repurchase Agreements used solely as short-term investments not to exceed 30 days.

   The Group may enter into Repurchase Agreements with primary dealers in U.S. Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York.

   The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities, as described in VII. 1 and 2 will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the Group's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each Repurchase Agreement must equal or exceed 102 percent of the total dollar value of the money invested by the Group for the term of the investment. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed at least weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in Repurchase Agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

Market value must be calculated each time there is a substitution of collateral.

The Group or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

The Group will have properly executed a PSA agreement with each counter party with which it enters into Repurchase Agreements.

6. Banker's Acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by a nationally recognized statistical-rating organization.

   Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the Group's investments under management.

7. Commercial Paper of prime quality rated in the highest short-term rating category, as provided by a nationally recognized statistical-rating organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

   (1) The entity meets the following criteria: (A) is organized and operating in the United States as a general corporation, (B) has total assets in excess of five hundred million dollars ($500,000,000), and (C) has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization.

   (2) The entity meets the following criteria: (A) is organized within the United States as a special purpose corporation, trust, or limited liability company, (B) has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond, and (C) has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization.

   Eligible commercial paper shall have a maximum maturity of 270 days or less. No more than 25 percent of the Group's investments under management may be invested in eligible commercial paper and the Group may purchase no more than 10 percent of the outstanding commercial paper of any single issuer.

8. Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium-term corporate notes shall be rated in a rating category "A" or its equivalent or better, by a nationally recognized statistical-

rating organization.

Purchase of medium-term corporate notes may not exceed 30 percent of the Group's investments under management.

9. FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California, including U.S. branches of foreign banks licensed to do business in California. All time deposits must be collateralized in accordance with California Government Code section 53561, either at 150 percent by promissory notes secured by first mortgages and first trust deeds upon improved residential property in California eligible under section (m) or at 110 percent by eligible marketable securities listed in subsections (a) through (l) and (n) and (o) of the government code.

10. Negotiable certificates of deposit issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a federally- or state-licensed branch of a foreign bank with a minimum rating of "A" for long-term or "A-1" for short-term or its equivalent or better by a nationally recognized statistical-rating organization.

    The Group's Executive Committee and the Executive Director or other officials of the Group having legal custody of the Group's money are prohibited from investing the Group's funds, or funds in the custody of the Group, in negotiable certificates of deposit issued by a state or federal credit union if a member of the Executive Committee or any person with investment decision making authority in the Executive Director's office of the Group also serves on the Board of Directors, or any committee appointed by the Board of Directors, or the credit committee, or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

    Purchase of negotiable certificates of deposit may not exceed 30 percent of the Group's investments under management.

11. Placer County Treasurer's Investment Portfolio

    Investment in the Placer County Treasury shall never be less than 30 percent of the projected cash balance for the end of the current fiscal year. It is SRIMG's objective to keep 40 percent to 50 percent of the projected cash balance in the Placer County Treasury.

12. State of California Local Agency Investment Fund

    The State of California offers a pool investment fund for California local agencies. This fund may be utilized in the future.

13. Insured savings account or bank money market account. In accordance with California Government Code Section 53635.2 to be eligible to receive local agency deposits a financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation.

14. Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (o) of Government Code Section 53601, inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint

powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria: (1) the adviser is registered or exempt from registration with the Securities and Exchange Commission, (2) the adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (o) Government Code Section 53601, inclusive, and (3) the adviser has assets under management in excess of five hundred million dollars ($500,000,000).

15. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision, these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally recognized rating services or (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds and with assets under management in excess of $500,000,000.

    The purchase price of shares shall not exceed 20 percent of the Group's investments under management.

16. Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond excluding those issued by a U.S. Federal Agency or Government Sponsored Enterprise, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond of a maximum of five-year's maturity. Eligible securities must be rated "AA" or higher by a nationally recognized statistical-rating organization, and the issuer of the security must have an "A" or higher rating for its debt as provided by a nationally recognized statistical-rating organization. No more than 10 percent of the Group's investments under management may be invested in this type of security.

17. Beginning January 1, 2015, United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated at least "AA" by a NRSRO. Purchases of these securities shall not exceed 30 percent of the Group's portfolio.

Credit criteria and percentage limitations listed in Section VII are applied at the time the security is purchased. The Group may from time to time be invested in a security whose rating is downgraded. In the event a rating drops below "A," the Executive Director shall immediately notify the Executive Committee and will report to the Committee, at their next regularly scheduled meeting, both the downgrade and the action that has been taken.

VIII. Ineligible Investments

Investments not expressly permitted in Section VII are not permitted.

IX. Maximum Maturity

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the Group to meet all projected obligations.

The maximum maturity will be no more than five years from purchase date to maturity date unless the Joint Powers Board gives permission at least 90 days in advance of investment.

X. Reporting Requirements

The Executive Director shall render to the Executive Committee a list of monthly investment transactions.

The Executive Director shall annually render to the Executive Committee a statement of Investment Policy, which the Board must consider at a public meeting. Any changes to the Policy shall also be considered by the Executive Committee at a public meeting.

The Executive Director shall render a quarterly investment report to the Executive Committee and an annual report to the Joint Powers Board. The report shall include the following information for each individual investment:

- Description of investment instrument
- Issuer name
- Maturity date
- Purchase price
- Par value
- Current market value and the source of the valuation

The quarterly report shall also (i) state compliance of the portfolio to the statement of Investment Policy or manner in which the portfolio is not in compliance, (ii) include a description of any of the Group's funds, investments or programs that are under the management of contracted parties, including lending programs, and (iii) include a statement denoting the ability of the Group to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

This quarterly report shall be submitted within 30 days following the end of the quarter covered by the report.

XI. Safekeeping and Custody

The assets of the Group shall be secured through the third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. Collateralized securities such as repurchase agreements shall be purchased using the delivery vs. payment procedure.