

**Housing Authority of the  
City of Mission Viejo  
Investment Policy  
Fiscal Year 2023-24**

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## I. Investment Philosophy

### A. Policy

1. This Investment Policy is set forth by the Housing Authority of the City of Mission Viejo (MVHA) for the following purposes:
  - a. To establish a clear understanding for the MVHA Board, the Investment Advisory Commission, MVHA management, responsible employees, citizens and third parties of the objectives, policies and guidelines for the investment of the MVHA's idle and surplus funds.
  - b. To offer guidance to investment staff and any external investment advisers on the investment of the MVHA funds.
  - c. To establish a basis for evaluating investment results.
2. The MVHA establishes investment policies which meet its current investment goals. The MVHA shall review this policy annually, and may change its policies more frequently as its investment objectives change.

### B. Objectives

The objectives of this investment policy are, in order of priority:

1. To assure ongoing compliance with all Federal, State and local laws governing the investment of moneys under the control of the MVHA Finance Officer.
2. To ensure safety of invested funds.
3. To maintain sufficient liquidity to meet cash flow needs.
4. To attain a "market average rate of return" consistent with the primary objectives of safety and liquidity. The expected rate of return on the MVHA's portfolio is more specifically defined in Section IV.

### C. Prudence

1. The Prudent Investor Standard shall be used by investment officials, and shall be applied in the context of managing an overall portfolio. Investment staff 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 within 30 days and appropriate action is taken to control adverse developments.

2. The Prudent Investor Standard: 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, and managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent investor 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 to an overall strategy, a trustee is authorized to acquire investments as authorized by law.

#### D. Ethics and Conflicts of Interest

1. State law, City statutes and City personnel and purchasing policies shall be followed to avoid conflict of interest or the appearance thereof. In addition to the applicable requirements of the Political Reform Act and Government Code Section 1090, the Finance Officer, Administrative Services Manager - Treasury and Executive Director, MVHA Board members, members of the Investment Advisory Commission, their spouses and investment consultants shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions on behalf of the MVHA. In addition, these individuals shall disclose to the Executive Director any financial interests in or financial relationships with financial institutions that conduct business with the MVHA, and shall subordinate their personal investment transactions to those of the MVHA, particularly with regard to the timing of purchases and sales. Unless otherwise prohibited by State law, City statutes, policies or regulations, it is permissible for the MVHA to purchase securities from firms in which members of the Investment Advisory Commission are officers, partners, members, or employees, provided that: (1) multiple bids are obtained for such purchases; (2) the affected member abstains from participation in the recommendation of the Investment Advisory Commission as to the firm with which the member has an employment or ownership relationship; (3) the member's relationship to the securities firm is stated in the minutes of the Investment Advisory Commission; and (4) the affected member of the Investment Advisory Commission does not participate in the sale of securities to the MVHA as an officer, partner, member, or employee of the securities firm; and (5) the firm meets the requirements of Section II. C. of this Investment Policy.
2. All bond issue providers including but not limited to underwriters, bond counsel, financial advisers, brokers and dealers, will disclose any fee sharing arrangements or fee splitting to the Executive Director prior to the execution of any transactions. The providers must disclose the percentage share and approximate dollar amount share to the MVHA prior to the execution of any transactions.

## II. Operational and Procedural matters

### A. Scope

This investment policy applies to all financial assets and investment activities of the MVHA.

1. Proceeds of debt issuance shall be invested in accordance with the investment objectives of the MVHA as set forth in this policy; however, such proceeds are invested in accordance with permitted investment provisions of their specific bond indentures. All deviations from investments authorized in this policy for other MVHA funds shall be disclosed to the MVHA Board at the time bond documents are considered for approval. Proceeds of debt issuance shall be subject to the operational and reporting requirements included in Sections II and V of this policy.

### B. Delegation of Authority

1. Authority to manage the MVHA's investment program is derived from the California Government Code Sections 53600 *et seq.*
2. The MVHA Finance Officer is authorized to invest funds in accordance with California Government Code Section 53600 *et seq.* The Finance Officer shall be responsible for all transactions undertaken by the MVHA's internal staff, and shall establish a system of controls to regulate the activities of internal staff and external investment advisers engaged in accordance with Section II B(5).
3. In the absence of the Finance Officer, the investment responsibilities are hereby delegated to the Administrative Services Manager - Treasury.
4. In the absence of the both the Finance Officer and the Administrative Services Manager - Treasury, the Executive Director has that responsibility.
5. The MVHA Board may, upon recommendation of the Investment Advisory Commission, engage the services of one or more external investment managers to assist in the management of the MVHA's investment portfolio in a manner consistent with the MVHA's objectives. Such external managers may be granted limited discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940, or be exempt from such registration. Such external managers shall be prohibited from 1) selecting broker/dealers, 2) executing safekeeping arrangements, and 3) executing wire transfers. This section does not preclude the Finance Officer from retaining portfolio consultants within existing authority.

### C. Monitoring and Adjusting the Portfolio

1. The investment portfolio will be passively managed, with an emphasis on holding investments to maturity.
2. The MVHA Finance Officer and Administrative Services Manager - Treasury will monitor and adjust the portfolio no less frequently than monthly.

### D. Authorized Financial Dealers and Institutions

1. The Finance Officer will maintain a list of financial institutions authorized to provide investment services to the MVHA. Institutions eligible to transact investment business with the MVHA include
  - a. Primary government dealers as designated by the Federal Reserve Bank,
  - b. Nationally or state-chartered banks,
  - c. The Federal Reserve Bank, and
  - d. Direct issuers of securities eligible for purchase by the MVHA.
2. Selection of financial institutions and broker/dealers authorized to engage in transactions with the MVHA shall be at the sole discretion of the MVHA.
3. The Finance Officer and the Investment Advisory Commission (IAC) shall obtain information from qualified financial institutions to determine if the institution makes markets in securities appropriate for the MVHA's needs, can assign qualified sales representatives and can provide written agreements to abide by the conditions set forth in the MVHA Investment Policy. Investment accounts with all financial institutions shall be standard non-discretionary accounts and may not be margin accounts.
4. All financial institutions which desire to become qualified bidders for investment transactions must supply the Finance Officer with the following:
  - a. Audited financial statements for the institution's three most recent fiscal years.
  - b. At least three references from California local agencies whose portfolio size, investment objectives and risk preferences are similar to the Agency's.
  - c. A statement certifying that the institution has reviewed the California Government Code Section 53600 *et seq.* and the MVHA's Investment Policy and that all securities offered to the MVHA shall comply fully and in every instance with all provisions of the California Government Code.

5. The signatures of two individuals shall be required for the opening and closing of any bank account and broker account (the Finance Officer or Executive Director, and the Chair or Vice Chair of the MVHA). The Administrative Services Manager - Accounting, who is independent of the investment function, shall keep a record of all opened and closed accounts. On an annual basis, the Administrative Services Manager - Accounting shall provide this list of accounts to the MVHA's independent auditor.
6. Public deposits shall be made only in qualified public depositories within the State of California as established by State law. Deposits shall be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, shall be collateralized with securities in accordance with State law.
7. Whenever possible, investment staff shall obtain a minimum of two quotations, preferably three, prior to entering into an investment transaction. Staff will buy or sell at the price that is most advantageous to the MVHA and meets investment requirements.

E. Delivery vs. payment

All investment transactions of the MVHA shall be conducted using standard delivery-vs.-payment procedures.

F. Safekeeping of securities

To protect against potential losses by collapse of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all securities owned by the MVHA shall be held in safekeeping by a third party bank trust department, acting as agent for the MVHA under the terms of a custody agreement executed by the bank and by the MVHA. The only exception to the foregoing shall be securities purchased made with: (1) local government investment pools; and (2) money market mutual funds, since these securities are not deliverable.

From time to time, the MVHA may invest funds received late in the day in one to five day repurchase agreements with its depository bank. Securities used as collateral for such repurchase agreements may be held in safekeeping by the MVHA's depository bank.

Investments are to be held in the MVHA's name in conjunction with industry standards, including collateral held for repurchase agreements by depository banks.

### III. Permitted investments and portfolio risk management

#### A. Investments authorized for purchase by MVHA staff

All investments shall be made in accordance with Sections 53600 *et seq.* of the Government Code of California and as described within this Investment Policy. Limits identified are to be based on the “market value” of the investment. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any investment that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as part of an investment program approved by the legislative body no less than three months prior to the investment. Percentage holding limits listed in this section apply at the time the security is purchased. Permitted investments under this policy shall include:

1. Securities issued by the US Treasury, provided that there shall be no maximum allowable investment in US Treasury securities.
2. Securities issued and backed as to payment by one of the following Government Sponsored Entities (GSEs): the Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association, provided that there shall be no maximum allowable investment in these securities with maturities that do not exceed 180 days.

Agency securities with maturities that exceed 180 days are subject to the following limitation:

- a. No more than the greater of \$500,000 or 10% of the portfolio be invested in securities with maturities that exceed 180 days issued by any single agency.

Subordinated debt, investment in mortgage-backed bonds and collateralized mortgage obligations (CMOs) is prohibited, even if such bonds are issued by agencies of the U.S. Government.

3. Federally insured time deposits (Non-negotiable certificates of deposit) interest bearing deposits (such as money market accounts) and passbook savings accounts in state or national banks, or state or federal savings associations with a maximum maturity of 180 days.
  - a. No more than 20% of the portfolio shall be invested in federally insured time deposits.
4. Repurchase agreements collateralized with securities authorized under Sections III (A 1-2) of this policy maintained at a level of at least 102% of the market value of the repurchase agreements, provided that

- a. The maximum maturity does not exceed one (1) year.
  - b. Securities used as collateral for Repurchase Agreements will be delivered to an acceptable third-party custodian.
  - c. The repurchase agreements are the subject of a Master Repurchase Agreement between the MVHA and the provider of the repurchase agreement. The Master Repurchase Agreement shall be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA).
  - d. The securities which collateralize the repurchase agreement shall be priced at Market Value, including any accrued interest plus a margin. The Market Value of the securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities.
  - e. Financial institutions shall mark the value of the collateral to market at least monthly and increase or decrease the collateral to satisfy the ratio requirement described above.
  - f. The MVHA shall receive monthly statements of collateral.
5. State of California Local Agency Investment Fund (LAIF), provided that
- a. Except as provided in 5.C., no more than 50% of the total portfolio shall be invested in LAIF.
  - b. LAIF investments in instruments prohibited by or not specified in the MVHA's policy do not exclude it from the MVHA's list of allowable investments, provided that the fund's reports allow the Finance Officer to adequately judge the risk inherent in LAIF's portfolio, and provided that disclosure of such investments, if any, is made annually to the MVHA Board.
  - c. While the MVHA portfolio size is smaller than \$5 million, the funds can be fully invested (100%) in LAIF.
6. Local agency sponsored investment pools specifically approved for investment by the MVHA upon recommendation of the IAC, provided that
- a. All pool investments must be permitted under California Government Code Section 53601 *et seq.*
  - b. The pool shall have achieved a rating of Aaa by at least one nationally recognized statistical rating organization ("NRSRO") , or shall be insured by a municipal insurance corporation.



- c. The pool marks its portfolio to market at least weekly.
  - d. The pool provides comprehensive, timely monthly reports which include detailed transaction listings; reports realized and unrealized gains and losses, provides accurate market values for each security, provides a quality rating for all investment securities, takes delivery of all securities prior to payment, provides for third party safekeeping of all investments, and for whom an audit is conducted annually by an independent auditor other than the local agency's internal auditors.
  - e. No more than 15% of the total portfolio shall be invested in such pools.
  - f. The MVHA's investment in any pool shall comprise no more than 5% of the market value of the total assets of the investment pool, measured at month end.
  - g. Pool investments in instruments prohibited by or not specified in the MVHA's policy do not exclude it from the MVHA's list of allowable investments, provided that the Pool's reports allow the Finance Officer to adequately judge the risk inherent in the Pool's portfolio, and provided that disclosure of such investments is made prior to any investment in such Pool, and annually to the MVHA Board.
7. Mutual funds and Money Market Mutual Funds invested in US government securities permitted under this policy and under the California Government Code Section 53601 with final stated maturities of one year or less ("Government money market funds"). In order to be eligible for investment under this section, one investment objective of such a fund must be to maintain a price of \$1.00 per share. The following criteria must also be met:
- a. The fund shall have a minimum of \$500 million in total portfolio value.
  - b. The fund shall be registered with the Securities and Exchange Commission, and shall have achieved a rating of Aaa by at least one NRSRO.
  - c. No more than 10% of the portfolio may be invested in any one fund.
  - d. The fund shall have retained an adviser which is registered with the SEC, or which is exempt from such registration.
  - e. Investment in such funds shall not exceed 20% of the MVHA's total portfolio.

- f. Investments in instruments prohibited by or not specified in the MVHA's policy do not exclude it from the MVHA's list of allowable investments, provided that the fund's reports allow the Finance Officer to adequately judge the risk inherent in the fund's portfolio, and provided that disclosure of such investments is made prior to any investment in such fund, and annually to the MVHA Board.

B. Prohibited investment vehicles and practices

1. State law notwithstanding, any investments not specifically described herein including, but not limited to, medium term corporate notes, mutual funds (other than government money market funds as described in Section III A 7, unregulated and/or unrated investment pools or trusts, except as specified above, futures and options, strips, variable rate securities and securities with embedded options.
2. Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
3. Purchasing or selling securities on margin is prohibited.
4. The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.
5. Borrowing for investment purposes is prohibited.
6. The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment if prohibited.

C. Investments and practices permitted for use by external investment managers.

1. Professional investment managers that may be retained by the MVHA may request more latitude in their choice of investment vehicles and practices than is allowed under this policy. As an integral part of their service to the MVHA, such advisers shall recommend additional investment vehicles and practices, with limitations and restrictions on their use. The MVHA Board must approve the investment vehicles and practices, upon the recommendation of the IAC, and adopt an appropriate amendment to this policy prior to their implementation.

D. Mitigating credit risk in the portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The MVHA shall mitigate credit risk by adopting the following strategies:

1. The diversification requirements included in Section III (A) are designed to mitigate credit risk in the portfolio.

2. The MVHA may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or the MVHA's risk preferences.
3. If securities owned by the MVHA are downgraded by a NRSRO to a level below the quality required by this Investment Policy, it shall be the MVHA's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.
  - a. If a security is downgraded one grade below the level required by this policy, the Finance Officer will use discretion in determining whether to sell or hold the security based on its current maturity, the loss in value, the economic outlook for the issuer, and other relevant factors.
  - b. If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the Executive Director and MVHA Board.

E. Mitigating market risk in the portfolio

Market risk is the risk that the portfolio will decline in value (or will not optimize its value) due to changes in the general level of interest rates. The MVHA recognizes that, over time, longer-term portfolios achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The MVHA shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making some longer-term investments only with funds which are not needed for cash flow purposes. The MVHA further recognizes that certain types of securities, including variable rate securities, securities with principal pay downs prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The MVHA, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

1. The maximum stated final maturity of individual securities in the portfolio shall be one year.
2. To the extent necessary, investment maturities shall match the MVHA's projected cash flow requirements over the following twelve months.
3. The MVHA shall invest only in fixed rate, fixed coupon securities.
4. The MVHA shall invest only in securities which do not include embedded options (i.e., calls or puts, swaps, etc.).
5. The MVHA shall not invest in securities which may return all or part of their principal prior to their stated final maturity date.

6. The Agency may elect to sell a security prior to its maturity and record a capital gain or loss in order to change the portfolio's exposure to market risk.
7. In order to minimize the need to sell securities prior to their stated maturity, and to eliminate reliance on interest rate forecasting, the MVHA shall structure its investment portfolio as a maturity ladder.

#### IV. Specific objectives and expectations

- A. Overall objective. The investment portfolio shall be designed with the overall objective of obtaining a market-average rate of return throughout economic cycles, commensurate with investment risk constraints and cash flow needs.

#### V. Reporting, disclosure and program evaluation

##### A. Monthly reports

Monthly investment reports shall be submitted by the Finance Officer to the Executive Director and the MVHA Board within 30 days of the last day of the month, to be agendaized for official action at the second regular MVHA Board meeting thereafter. The reports shall also be transmitted to the Investment Advisory Commission on their quarterly meeting agendas, for their review and comment. These reports shall disclose information about the risk characteristics and market value of the MVHA's portfolio in accordance with Governmental Accounting Standards Board Statement No. 31 and shall include:

1. Treasurer's Monthly Report cover page:
  - a) cash receipts, disbursements and balances in total,
  - b) a summary of the portfolio at month-end,
  - c) information regarding interest earnings,
  - d) 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,
  - e) a statement of the MVHA's ability to meet its expenditure requirements for the next six months,
  - f) cost and market value of the portfolio,
  - g) sector allocation.

2. Reconciliation of cash disbursements.
3. Listing of individual investment transactions during the month as required by Government Code section 53607.
4. An asset listing showing par value, cost and accurate and complete market value of each security, type of investment, issuer, maturity date and interest rate.

B. Annual reports

1. The investment policy shall be reviewed and adopted at least annually within 90 days of each 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.
2. An annual report shall be presented in conjunction with the investment policy review. This report shall suggest policies and improvements that might enhance the investment program, and shall include an investment plan for the coming year.
3. The MVHA's component unit financial report shall include all disclosures regarding cash and investments that are required by Governmental Accounting Standards Board Statement No. 40.

C. Internal controls

The Finance Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. Internal controls shall be in writing and shall address the following points: control of collusion, separation of transaction authority from accounting and record keeping, safekeeping of assets and written confirmation of telephone transactions for investments and wire transfers.

D. Annual audit

The Finance Officer shall establish an annual process of independent review by an external auditor to assure compliance with internal controls.

E. Special audits

The MVHA Board may at any time order an audit of the investment portfolio and/or the MVHA's investment practices.

F. Independent investment adviser

In its discretion, the MVHA Board may retain the services of an independent investment adviser to review the investment program from time to time. The adviser will review compliance with policies and procedures, independently calculate the market value of the Agency's holdings, report on overall portfolio risk exposure and investment results, and make recommendations, if needed, regarding investment strategy, risk, or any aspect of the investment program.

G. Investment Advisory Commission

The Investment Advisory Commission (IAC) appointed by the City Council shall be responsible for overseeing the implementation of the MVHA's investment program, assuring its consistency with the investment policy and recommending changes to the investment policy for consideration by the MVHA Board. The scope of the IAC's responsibilities as applies to the City shall also apply to the MVHA.