



# The State Bar of California

---

## **OPEN SESSION AGENDA ITEM 50-7 JANUARY 2024 FINANCE COMMITTEE III.B**

**DATE:** January 10, 2024

**TO:** Members, Finance Committee  
Members, Board of Trustees

**FROM:** Aracely Montoya-Chico, Chief Financial Officer

**SUBJECT:** Annual Review and Approval of Investment Policy

---

### **EXECUTIVE SUMMARY**

Section 5.2.3 of the Board of Trustees Policy Manual requires that the Investment Policy be reviewed annually. This agenda item represents that annual review.

---

### **BACKGROUND**

The State Bar's Investment Policy outlines the State Bar's investment objectives, identifies authorized investment instruments, and identifies associated responsibilities. The State Bar first adopted an Investment Policy in 1996. The current policy was adopted by the Board in January 2023.

The policy is designed as a broad framework for the State Bar's investments and is not intended to provide specific procedures for the purchase of individual investments. The primary investment objectives, in order, are safety/diversification, liquidity, and rate of return/yield. Key elements of the Investment Policy are outlined on the following below.

- Section 1 – Policy Statement, specifies the State Bar's policy as follows: "It is the policy of the State Bar of California to invest public funds in a manner which will provide the maximum security with best investment return, while meeting the daily cash flow demands of the State Bar and conforming to all State statutes governing the investment of public funds and all Resolutions of the Board of Trustees."

- Section 2 – Objectives, discusses various investment objectives including diversification, identifies funds subject to the policy, requires safety of principal as the foremost objective and requires an independent third-party custodian.
- Section 3 – Investment Instruments Authorized by the State of California, identifies the investments that the State Bar is allowed to purchase and hold.
- Section 4 – Reports of Investment Activities, calls for quarterly reports to the Board of Trustees on the status of the State Bar’s investment portfolio.
- Section 5 – Ethics and Conflicts of Interest, discusses avoidance of conflicts.
- Section 6 – Social Investments.
- Section 7 – Required Review of State Bar Investment Policy, requires annual review of the policy.

## **DISCUSSION**

The most current Investment Policy was last revised and approved in January 2023. At this time, there are no proposed revisions to the policy. Routine annual committee review and approval is sought accordingly.

## **FISCAL/PERSONNEL IMPACT**

None

## **AMENDMENTS TO RULES**

None

## **AMENDMENTS TO BOARD OF TRUSTEES POLICY MANUAL**

None

## **STRATEGIC PLAN GOALS & IMPLEMENTATION STEPS**

None – compliance

## **RECOMMENDATIONS**

**Should the Finance Committee concur in the proposed action, passage of the following resolution is recommended:**

**RESOLVED**, that the Finance Committee recommends that the Board of Trustees approve the Investment Policy as presented in this item by the chief financial officer.

**Should the Board of Trustees concur in the proposed action, passage of the following resolution is recommended:**

**RESOLVED**, that the Board of Trustees, upon recommendation of the Finance Committee approve the Investment Policy as presented in this item by the chief financial officer.

**ATTACHMENT LIST**

- A.** 2023 Investment Policy



The State Bar *of California*

ATTACHMENT A

# Office of Finance

## Investment Policy

*Approved January 19, 2023*

## Table of Contents

<b>Section 1.</b>	POLICY STATEMENT.....	2
<b>Section 2.</b>	OBJECTIVES.....	2
<b>Section 3.</b>	INVESTMENT INSTRUMENTS AUTHORIZED BY THE STATE OF CALIFORNIA.....	4
<b>Section 4.</b>	REPORTS OF INVESTMENT ACTIVITIES.....	5
<b>Section 5.</b>	ETHICS AND CONFLICTS OF INTEREST .....	6
<b>Section 6.</b>	SOCIAL INVESTMENTS.....	6
<b>Section 7.</b>	REQUIRED REVIEW OF STATE BAR INVESTMENT POLICY.....	6

**THE STATE BAR OF CALIFORNIA**  
**Office of Finance**  
**Investment Policy**

***Section 1.***

**POLICY STATEMENT**

It is the policy of the State Bar of California to invest public funds in a manner which will provide the maximum security with best investment return, while meeting the daily cash flow demands of the Bar and conforming to all State statutes governing the investment of public funds and all Resolutions of the Board of Trustees.

***Section 2.***

**OBJECTIVES**

1. Safety of Invested Funds

- a. Minimum Standards: Investment instruments must conform to the standards established by the State of California as set forth in Section 3. As these standards are modified by the State from time to time, this investment policy will automatically adopt the revised standards.
- b. Diversification: To minimize risk of loss, the State Bar shall diversify its investment portfolio utilizing any combination of investment instruments specified in Section 3. The maximum amount the State Bar invests in each type of investment instrument is limited to the "maximum specified % of portfolio" shown in Section 3.
- c. Scope: This investment policy applies to all financial assets under direct control of the State Bar, including all of the funds accounted for in the State Bar quarterly report to the Board and include the General Fund, Restricted Funds, and other funds that may be created from time to time. The State Bar holds no pension trust funds for which it is accountable.

This policy does not apply to investment activities of moneys held by a Trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or certificates of participation. Such funds are invested in accordance with the statutory provisions governing the issuance, or in the absence of specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the State Bar of California providing for the issuance. This policy also does not apply to the State Bar of California Section 457 Deferred Compensation Plan and the OPEB Plan.

- d. **Safety of Principal:** Safety of principal is the foremost objective of the investment policy. Investments of the State Bar of California shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
  - e. **Custodianship of Instruments:** The State Bar will utilize an independent third-party custodian to provide custodial services on all of the State Bar's investments.
  - f. **Prudence:** Investments shall be made with judgment and care—under circumstances then prevailing—which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. This standard of prudence shall be applied in the context of managing an overall portfolio. Investment officials acting in accordance with 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 that deviations from expectation are reported in a timely fashion, and appropriate action is taken to mitigate adverse developments<sup>1</sup>.
- 2. **Liquidity of Invested Funds:** The State Bar's investment portfolio will remain sufficiently liquid to enable the State Bar to meet all operating requirements that might be reasonably anticipated.
  - 3. **Return on Investment:** The State Bar's investment policy shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the State Bar's investment risk constraints and the cash flow characteristics of the portfolio. Investments shall be made with the intent to hold to maturity unless the liquidity needs of the portfolio require that the security be sold in a manner that better positions the overall portfolio in achieving investment policy goals. In an event of a downgrade of the issuer's credit rating below the sated requirement, the responsible official(s) shall determine the appropriate action.
  - 4. **Responsible Official:** The Chief Financial Officer is designated as the official with responsibility for authorizing the following:
    - a. Opening and closing accounts,
    - b. Selection of investment managers and custodians,
    - c. Purchase of investments, and
    - d. Sale or liquidation of investments prior to their scheduled maturity dates.

---

<sup>1</sup> Pursuant to Government Code sections 825 and 995, the State Bar is required to indemnify the Board of Trustees, its officers, and other employees.

5. Authorized Financial Dealers and Financial Institutions: The Chief Financial Officer of the State Bar will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers, selected by credit worthiness, who are authorized to provide investment services in the State of California.
6. Distribute Investment Policy: The State Bar shall send a copy of the current investment policy to all parties approved to do business with the State Bar. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the State Bar's investment policies and intends to show the State Bar of California only appropriate investments.
7. Service Provider Controls: The State Bar shall annually obtain and review the System and Organization Controls (SOC1) reports of custodians and investment managers each year to ensure reliability of data and reports received.

### **Section 3.**

#### **INVESTMENT INSTRUMENTS AUTHORIZED BY THE STATE OF CALIFORNIA**

The following table identifies the investment instruments, maturities, portfolio percentage restrictions and other minimum quality requirements established under California Law effective as of January 1, 2024.

<b>The State Bar of California Investment Policy Investment Instruments Authorized by the State of California</b>			
<b>INVESTMENT TYPE</b>	<b>MAXIMUM MATURITY</b>	<b>MAXIMUM SPECIFIED % OF PORTFOLIO</b>	<b>MINIMUM QUALITY REQUIREMENTS</b>
Local Agency Bonds	5 years	None	None
Medium-term Notes	5 years or less	30%	"A" rating category or its equivalent or better
Public Bank Obligations	5 years	None	None
U.S. Treasury/U.S. Agency Obligations	5 years	None	None
State and Local Agency Obligations	5 years	None	None
Supranational Obligations	5 years or less	30%	"AA" rating category or its equivalent or better
Bankers Acceptances (Domestic and Foreign)	180 days	40%	None



<i>Continued</i>			
INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO	MINIMUM QUALITY REQUIREMENTS
Commercial Paper – non-pooled funds	270 days or less	25% of agency's money	Highest letter and number rating by an NRSRO
Repurchase Agreements	1 year	None	None
Reverse Purchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	Must be made with primary dealers of the Federal Reserve Bank of NY or with a nationally or state chartered bank that has significant relationship with the local agency.
Money Market Mutual Funds	N/A	20%	Multiple; highest ranking or letter and numerical rating provided by not less than two NRSROs
Collateralized Bank Deposits	5 years	None	None
Non-negotiable Certificates of Deposit	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Percentage limitations and rating requirements, where indicated, apply at the time of purchase. Minimum ratings listed may use any nationally recognized statistical rating organization (NRSRO). Securities that have been downgraded to a level that is below the minimum rating described herein may be sold or held to maturity. The portfolio will be brought back into compliance with policy guidelines as soon as it is practical. Maximum maturity limits are from date of settlement.

Investments not described above as authorized investments are ineligible for purchase. The policy specifically prohibits the investment of any funds in inverse floaters, range notes, or interest-only strips derived from a pool of mortgages.

## **Section 4.**

### **REPORTS OF INVESTMENT ACTIVITIES**

The Chief Financial Officer will make quarterly reports to the Board of Trustees on the status of the State Bar's Investment portfolio. These reports shall include information as to the type of investment, the amount of money invested with various institutions, market value for securities with a maturity of more than 12 months, purchase and maturity dates, rate of interest, and statement of portfolio liquidity, as required by California state law.

## ***Section 5.***

### **ETHICS AND CONFLICTS OF INTEREST**

Officers and employees involved in the investment process 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. Investment officials and employees shall disclose any financial interests as required by the Conflict of Interest Code for Designated Employees of The State Bar of California and the Conflict of Interest Code for the State Bar Board of Trustees. All persons authorized to place or approve investments shall report annually on Form 700 of the California Fair Political Practices Commission all required economic interests for that year.

## ***Section 6.***

### **SOCIAL INVESTMENTS**

When considering a social investment initiative, the State Bar of California will assess the expected social benefit relative to the possible investment return and consider the resources required to evaluate alternatives, make the investments, and monitor progress and results. The State Bar of California's assets are invested by carefully selected investment managers/custodians. The investment manager/custodian is given limited discretion relative to the underlying investments they choose under the direction of the chief financial officer. This discretion includes making decisions concerning economic sectors, geographies, degree of maturity of individual companies, etc.

To ensure the effectiveness of the social investment initiatives, verification of the company's social responsibility is assessed upon consideration of investment.

## ***Section 7.***

### **REQUIRED REVIEW OF STATE BAR INVESTMENT POLICY**

This investment policy shall be reviewed at least annually for the purpose of recommending needed changes and modifications. The chair of the Finance Committee will be responsible for initiating the review.