

Control Policies and Procedures

**Article 5
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 Governors.

Section 2 Objectives

(a) Safety Of Invested Funds

- (1) 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.
- (2) Diversification: To minimize risk of loss, the State Bar shall diversify its investment portfolio utilizing any combination of investment instruments specified in Section 3.
- (3) 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. These funds are identified as the State Bar of California Section 457 Deferred Compensation Plan and the Post Employment Benefit Fund.

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- (4) 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.
 - (5) 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.
 - (6) 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 developments¹.
- (b) 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.
- (1) 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 or a capital gain be realized in a manner that better positions the overall portfolio in achieving investment policy goals. The Chief Financial Officer is designated as the official with responsibility for authorizing the sale or liquidation of investments in advance of their scheduled maturity dates.
 - (2) Authorized Financial Dealers and Financial Institutions: The Chief Financial Officer of the State Bar will maintain a list of financial

¹ Pursuant to Government Code sections 825 and 995, the State Bar is required to indemnify the Board of Governors, its officers and other employees.

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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.

- (3) 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.

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.

Investment Type	Maximum Maturity	Maximum Specified % of Portfolio	Minimum Quality Requirements
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State of California Obligations	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agencies	5 years	None	None
Bankers' Acceptances	180 days	40 percent	None
Commercial Paper- Select Agencies	270 days	25 percent of the agency's money	"A-1/P-1/F-1"; if the issuer has issued long-term debt it must be rated "A" without regard to modifiers
Commercial Paper- Other Agencies	270 Days	40 percent of the agency's money	"A-1/P-1/F-1"; if the issuer has issued long-term debt it must be rated "A" without regard to modifiers
Negotiable Certificates of Deposit	5 years	30 percent	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20 percent of the base value of the portfolio	None

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Investment Type	Maximum Maturity	Maximum Specified % of Portfolio	Minimum Quality Requirements
Medium-Term notes	5 years	30 percent	"A" rating
Mutual Funds	N/A	20 percent	See Footnote ²
Money Market Mutual Funds	N/A	20 percent	See Footnote ³
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20 percent	"AA" Rating
Time Deposits	5 years	20 percent	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund	N/A	None	None

Section 4 Surplus Funds

Surplus funds are defined as those funds not immediately needed for State Bar operations. Surplus funds, however, do not include those minimum balances required by the State Bar's bank to compensate it for the cost of bank services.

Section 5 Reports Of Investment Activities

The Chief Financial Officer will make quarterly reports to the Board of Governors 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 6 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

² Must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least 5 years experience investing in instruments authorized by Government Code Sections 53601 and 53635.

³ Must receive the highest ranking by not less than two nationally recognized rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than 5 years experience investing in money market instruments with assets under management in excess of \$500 million.

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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 Governors. 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 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 Investment Advisory Subcommittee will be responsible for initiating the review.

Section 8 Investment Advisory Subcommittee

The Board Planning, Program Development and Budget Committee, will appoint the Chair to the Investment Advisory Subcommittee. The Investment Advisory Subcommittee will consist of four members: the Chair shall be a member of the Board Planning, Program Development and Budget Committee, and the remaining three members may be members of the Board of Governors and/or individuals with expertise in investment management. The Board Committee shall review the qualifications of, and appoint these non-Board members to serve a one-year term. The Office of Finance shall provide staff support for the committee.

Meetings of the Committee shall be scheduled on a quarterly basis.

(Source: Board of Governors' Resolutions, September 1996, June 2000, September 2000, May 2005.)

Article 6 LISTS OF CERTIFIED SPECIALISTS

Section 1 Names of Certified Specialists--Public Communications

The Board of Governors authorizes the staff to advise inquirers that a person is or is not a certified specialist, whether or not the specialist has chosen to "opt-out" of the published list of specialists.

(Source: Board of Governors' Resolution, October 1982.)

Section 2 Release of List of Certified Specialists

The Board of Governors authorizes release of lists of certified specialists or a portion thereof provided that such lists shall contain the following caveats: