FIRST REPUBLIC INVESTMENT MANAGEMENT
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# Investment Policy Statement

# Surplus Line Association of California

**October 21, 2021 ~~May 18, 2017~~**

**Purpose**

This Investment Policy Statement is intended to confirm your investment goals and strategy for the Surplus Line Association of California (SLA) Investment Management Portfolio.

**Background**

SLA originated in 1994 to serve as the statutory surplus line advisory organization to the California Department of Insurance. Their primary activity is to facilitate the state's capacity to monitor and direct surplus line brokers' placement of insurance with eligible surplus line insurers. SLA operates as a private, 501(c)(6) not-for-profit organization governed by a plan of operation approved by both the CA Department of Insurance and the SLA Board of Directors. The initial assets to be managed total ~$6 million.

**Investment Goals and Risk Tolerance**

We understand your long-term strategic goals for these assets are:

Capital Preservation & Current Income
This is most appropriate for a client focused on preservation of capital in inflation-adjusted terms. Highly liquid assets and a strong aversion to losses are also hallmarks of this strategy. Generally, these assets provide a level of current income that may or may not be taxable to the client, depending on the client's tax situation.

**Benchmark***

Merrill Lynch 1-5 Year AAA-AA U.S. Corporate & Government Index

**Investment Strategy & Permissible Investments**

It is the intention of First Republic Investment Management to construct a long-term investment strategy which takes into consideration your goals, unique preferences, existing holdings, tolerance for risk and return objectives. The table below outlines the strategic long-term asset allocation target and tactical ranges. These ranges will allow your advisor to actively manage your portfolio in a variety of economic and capital market conditions, without disrupting your overall long-term investment objective.

Asset Allocation

| ***Asset Class*** | ***Target*** | ***Range*** |
|---|---|---|
| Fixed-Income** | 100 % | 90% - 100% |
| Taxable | 100% | 90% - 100% |

** including nominal cash.

Sectors

- U.S. Treasuries
- U.S. Agencies/Government Sponsored Enterprises (GSEs), including MBS
- FDIC-insured Certificates of Deposits (CDs)
- Corporates, including Commercial Paper
- Municipals (taxable)
- Money Market Funds
- Asset-backed Securities (ABS)

Maturity

- ~~The effective average maturity of the portfolio will be a maximum of 2.5 years~~; The effective average maturity will target 2.5 years, with a +/- 20% average maturity band.
- Individual securities, excluding CDs, will have a maximum maturity of approximately 5 years;
- Traditional CDs will have a maximum maturity of approximately 1 year; brokerage CDs (i.e. tradeable prior to maturity) will have a maximum maturity of approximately 5 years.

Credit Quality

- Securities are required to be rated by at least two credit rating agencies including Moody's, S&P, and Fitch;
- Individual securities must have a minimum credit rating of Baa3/P-3 or BBB-/A-3 ~~A1/P1 or Aa/AA~~;
- Split-rated securities are allowed assuming at least one rating meets the minimum above.

Restrictions

- The combined total market value of corporate securities, including commercial paper, and municipal securities will not exceed the lower of (a) 50% of the total market value of the account or (b) $5 million.
- Corporate, including commercial paper, and Municipal issues are to target 5% per issue and 10% per issuer maximum (excluding U.S. Government positions). ~~not to exceed approximately $250K per issue nor approximately $500K per issuer.~~

**Cash Flow Expectations**

Income and maturities from the portfolio will be distributed as determined by SLA.

**Unique Circumstances**

None

**Rebalancing**

In order to keep the investment strategy consistent with its goals, objectives and risk tolerance, we plan to review your account on a regular basis and rebalance when necessary. Our periodic review of your account will also include an assessment of whether a significant asset event (such as a major market event, a large deposit or withdrawal from the account, or a significant change in objectives or risk tolerance), requires a rebalancing of the portfolio. A rebalancing may include selling assets and moving funds from higher volatility assets to lower volatility assets or vice versa.

**Reviewing this**

We will review this Investment Policy Statement on an ongoing basis.

**Investment Policy** However, because this Investment Policy Statement and your strategic allocation depend upon your particular circumstances and preferences, when any of those things change materially from those expressed in this Investment Policy Statement, you understand that you should inform us of those changes as soon as possible to allow us to perform our services appropriately, including revising this investment policy. Changes in your particular circumstances and preferences can include changes as to (i) objectives, (ii) risk tolerance, (iii) cash flow needs, or (iv) additional asset classes or investments held by you.

**Acknowledgement** You have read this Investment Policy Statement and acknowledge that it accurately reflects your investment goals and risk tolerances.

| | | | |
|---|---|---|---|
| Joy Erven<br>Director and COO | Date | Ivan Morse<br>Controller | Date |
| Benjamin McKay<br>Executive Director | Date | Glenn Leung<br>VP Fin Analysis | Date |
| Michael Hickey<br>Fixed Income Portfolio Manager | Date | | |

* The benchmark is intended to provide a representation of broad market characteristics, including investment performance, maturity risk, and credit risk. Each client account is customized and will typically differ from the attributes of the stated benchmark.