Middle Fork Project Finance Authority

Investment Policy

Policy Statement

This Policy is intended to provide guidelines for the prudent investment of the Middle Fork Project Finance Authority's (Authority) funds and outline the policies for maximizing the efficiency of the Authority's cash management system. The ultimate goal is to enhance the economic status of the Authority consistent with the prudent protection of the Authority's investments. This Investment Policy has been prepared in conformance with all pertinent existing laws of the State of California including California Government Code Sections 53600, *et seq*. The Authority is a Joint Exercise of Power organization established to serve mutual interest of the County of Placer and Placer County Water Agency, approve future electrical sales, maintain appropriated reserve funds and distribute net revenues.

Scope

This Policy covers all funds and investment activities of the Authority, including the proceeds of certain finance programs, which are invested in accordance with provisions of their specific indentures. These funds are defined and detailed in the Authority's Annual Financial Statements and include any new funds created unless specifically excluded by Authority management and the Board of Directors.

Prudent Person Standard

The Authority operates its investment portfolio under the Prudent Investor Standard (California Government Code Section 53600.3) which states, "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 organization".

Investment Objectives

When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing the Authority's funds, the primary objective is to safeguard the principal of the funds. The secondary objective is to meet the liquidity needs of the Authority. The third objective is to achieve a market rate of return on invested funds. It is the policy of the Authority to invest public funds in a manner to maintain the maximum security and obtain the market rates of return over interest rate cycles.

(a) Safety of Principal

Safety of principal is the foremost objective of the Authority. Investment transactions shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio, by ensuring losses are avoided whether they arise from security defaults, institution default, broker-dealer default, or erosion of market value of securities. The Authority shall mitigate the risk to the principal of invested funds by limiting credit and interest rate risks.

Credit risk is the risk of loss due to the failure of a security's issuer or backer. Interest rate risk is the risk that the market value of the Authority's portfolio will fall due to an increase in general interest rates.

1) Credit risk will be mitigated by:

   (a) Limiting investments to only the most creditworthy types of securities;
   (b) Pre-qualifying the financial institutions with which the Authority will do business; and
   (c) Diversifying the investment portfolio so that the potential failure of any one issue or issuer will not place an undue financial burden on the Authority.

2) Interest rate risk will be mitigated by:

   (a) Structuring the Authority's portfolio so that securities mature to meet the Authority's cash requirements for ongoing obligations, thereby reducing the possible need to sell securities on the open market at a loss prior to their maturity to meet those requirements; and
   (b) Managing the overall average maturity of the portfolio so as not to exceed 3 ½ years.

(b) Liquidity

Availability of sufficient cash to pay for current expenditures shall be maintained. An adequate percentage of the portfolio shall be maintained in liquid short-term investment pools or securities, which can be converted to cash as necessary to meet disbursement requirements. Since cash requirements cannot always be anticipated, sufficient investments in securities with active secondary or resale markets shall be utilized. These securities will have a low sensitivity to market risk. The Local Agency Investment Fund (LAIF) and/or County Pool may also be used as liquid investments. The cash management system of the Authority shall be designed to accurately monitor and forecast expenditures and revenues to insure the investment of monies to the fullest extent possible.

(c) Rates of Return

Only after the first two objectives of safety and liquidity have been met, the third objective is yield on investments. The investment portfolio shall be designed to attain a market average rate of return throughout economic cycles, taking into account the Authority's risk constraints, the composition and cash flow characteristics of the portfolio, and applicable laws.

Delegation of Authority

The Board of Directors hereby delegates management authority and responsibility for implementing the Investment Policy to the Authority's Treasurer who shall establish written procedures for the operation of the investment program consistent with this Investment Policy and the requirements of applicable laws. The responsibility to execute investment transactions may be further delegated under the direction of the Authority's Treasurer. No person may engage in an investment transaction except as provided under the terms of this Policy established by the Board of Directors. The Authority's Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the internal activities and that of any external investment advisors.

All participants in the investment process shall act, as custodians of the public trust and all investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. All investment related activity shall be done in conformance with this Policy and all applicable State and Federal laws and regulations.

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. Employees and investment officers shall disclose any financial interest in financial institutions that conduct business with the Authority, and they shall further disclose any personal financial / investment positions that could be related to the performance of the Authority's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the Authority, particularly with regard to the timing of purchases and sales, and shall avoid transactions that might impair public confidence.

Authorized Institutions, Financial Brokers/Dealers and Investment Advisors

The Authority's Treasurer shall establish and maintain a list of authorized financial institutions, brokers/dealers and investment advisors. Only those broker/dealers and investment advisors authorized by the Authority's Treasurer shall provide services to the Authority.

For authorized financial institutions providing depository and investment services to the Authority, the Authority's Treasurer or designee shall perform an annual review of the financial condition and registrations of the authorized institutions including their annual audited financial statements.

For authorized brokers/dealers and investment advisors providing investment services to the Authority, annually, or as this Policy is updated, the Authority shall send a copy of its current investment policy to authorized broker/dealers and investment advisors requesting confirmation, in writing, that the Authority's Investment Policy has been read and reviewed by the person(s) handling the Authority's account and that they agree to comply with the Policy's provisions when recommending, selling, advising or providing service on the Authority investments.

(a) Depositories

In selecting depositories (banks or savings & loans), the creditworthiness of institutions shall be considered and the Authority's Treasurer shall conduct a comprehensive review of prospective depositories' credit characteristics and financial history. Authority funds in excess of the FDIC insured amount shall be invested (deposits and/or certificates of deposit) only in commercial banks and savings & loans with a bank financial strength rating of "A" or better by Moody's Investor Service or equivalent rating by another Nationally Recognized Statistical Rating Organization (NRSRO). Qualifications and minimum requirements for depositories shall be established by the Authority's Treasurer and will be provided to any institution seeking to conduct business with the Authority.

Any institution meeting the Authority's required criteria will be eligible for placement of public deposits by the Authority, subject to approval by the Authority's Treasurer. A written depository contract is required with all institutions that will hold Authority deposits (Contract for Deposit of Moneys). As deemed necessary by the Authority's Treasurer, reviews of unaudited quarterly financial data may be conducted for institutions on the Authority's approved list. Any institution falling below the Authority's established minimum criteria shall be removed from the approved list, no new deposits may be placed with that institution and all funds remaining shall be withdrawn as the deposits mature.

The financial institution providing the Authority with its primary banking services has additional qualifications and minimum requirements based on the Authority's banking needs.

The Authority's Treasurer has established the following minimum qualifications for a financial institution providing banking services, upon which additional qualifications may be required:

- Federal or State of California charter financial institution [Member of Federal Reserve].

- Qualified depository of public funds to ensure the collateralization requirements for governmental entities are met.
- Experienced with providing banking services to similar sized and type governmental agencies to ensure the Authority's banking needs will be met and possesses familiarity with reporting and other banking requirements for governmental agencies.
- Sufficiently capitalized to accommodate the Authority's cash needs including a minimum $1 million daylight overdraft facility.
- Electronic capabilities to meet the Authority's current banking needs.
- Access to all Federal Reserve Bank services including direct clearing with the Federal Reserve Bank.
- Banking branch in local area.
- State of California depository.

(b) Brokers and Dealers

All brokers and dealers that desire to become authorized to do business with the Authority and qualified bidders for investment transactions for the Authority must complete and sign a "Broker/Dealer Questionnaire" and submit related documents relative to eligibility. This includes current audited financial statements, proof of State of California registration, proof of FINRA (Financial Industry Regulatory Authority) registration and a certification they have reviewed the Authority's Investment Policy and agree to comply with its provisions. The Authority's Treasurer may establish any additional criteria deemed appropriate to evaluate and approve any financial services provider. The selection process for broker-dealers shall be open to both "primary dealers" and "secondary/regional dealers" that qualify under Securities and Exchange Commission Rule 15c3-1 (Uniform Net Capital Rule). The provider's representative must be experienced in institutional trading practices and familiar with the California Government Code as it relates to investments by a public entity.

(c) Investment Advisors

The Authority's Treasurer may engage the services of outside professionals for evaluation and advice regarding the Authority's investment program. An authorized investment advisor may provide investment services, which may include facilitating trade executions, at the specific direction of the Authority's Treasurer or designee. Advisors (service providers) shall be subject to the provisions of this Investment Policy and must act in the best interest of the Authority in the capacity of a fiduciary.

Authorized and Permitted Investments

The Authority is provided a broad spectrum of eligible investments under California Government Code Sections 53600–53609 (authorized investments), 53630-53686 (deposits and collateral) and 16429.1 (Local Agency Investment Fund). The Authority may choose to restrict its permitted investments to a smaller list of securities that more closely fits the Authority's cash flow needs and requirements for liquidity. If a type of investment is added to the Government Code list, it shall not be added to the Authority's Authorized Investment List until this Policy is amended and approved by the Board of Directors. If a type of investment permitted by the Authority should be removed from the Government Code list, it shall be deemed concurrently removed from the Authority's Authorized Investment List, but existing holdings may be held until maturity.

One of the purposes of this Investment Policy is to define what investments are authorized and permitted for the Authority to purchase and hold. This Policy restricts the Authority's investments to a subset of those eligible and allowable under California Government Code. Additionally, this Policy further restricts the maximum percentage by investment types over that allowable under California Government Code. ***If a type of security is not specifically authorized by this Policy, it is not an authorized and permitted investment.***

This subset listing of authorized and permitted securities with specific limitations is determined to more closely fit the Authority's risk tolerance and requirements for liquidity. The following table lists the Authority's authorized and permitted investments and certain limitations thereon provided by this Investment Policy:

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Investment Type	Maximum Maturity	Maximum % Holdings	Maximum % per Issuer	Minimum Rating*
Securities of the U.S. Government	5 Years	100%	100%	N/A
Securities of U.S. Government Agencies and Instrumentalities	5 Years	100%	50%	N/A
Registered State Warrants, Treasury Notes, or Bonds of the State of California	5 Years	25%	10%	N/A
Registered Treasury Notes or Bonds of other states in the United States	5 Years	25%	10%	N/A
Bonds, Notes, Warrants, or Other Evidences of Indebtedness of any Local Agency writing the State of California	5 Years	30%	10%	AA-/Aa3
Commercial Paper	270 days	25%	5%	A-1/P-1 Plus A- long Term
Corporate or Medium-Term Notes (U.S. Only)	5 Years	30%	5%	A-/A3
Money Market Mutual Funds	N/A - 2(A) 7 Eligible	20%	20%	AAA / AAA
Bonds of Supranationals (IBRD, IFC, IADB)	5 Years	15%	5%	AA-/Aa3
Negotiable Certificates of Deposit	1 Year	20%	5%	N/A
Repurchase Agreements	1 Year	15%	5%	N/A
Bankers' Acceptances	180 Days	25%	5%	A-/A3
Placer County Treasurer's Investment Pool	N/A	Max permitted by County Treasurer	Max permitted by County Treasurer	N/A
Local Agency Investment Fund	N/A	Max permitted by State Treasurer	Max permitted by State Treasurer	N/A
Collateralized Bank Deposits	N/A	100%	50%	N/A
Public Bank Obligations	5 Years	100%	100%	N/A
Mortgage Pass-Through and Asset-Backed Securities	5 Years	20%	5%	AA-/Aa3

Note: Minimum credit ratings and percentage limitations apply to the time of purchase
*Rating minimums are inclusive of rating modifiers such as "+/-"

A description of the authorized and permitted investments, which for certain securities includes additional limitations as provided in the following:

(a) Securities of the U.S. Government

Obligations issued by the United States Treasury and backed by the "full faith and credit" of the Federal government. These securities are in the form of U.S. Treasury notes, bills, certificates of indebtedness and bonds. (Legal Authority - Government Code Section 53601(b))

(b) Securities of the U.S. Government Agencies and Instrumentalities

Obligations issued by Federal Government agencies and Government Sponsored Enterprises (U.S. Instrumentalities) such as: Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC). Such securities are obligations of the Federal agencies or United States Government-Sponsored Enterprises. (Legal Authority – Government Code Section 53601 (f)).

(c) Registered State Warrants, Treasury Notes or Bonds of the State of California

Registered State warrants, treasury notes or bonds issued by the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state. (Legal Authority – Government Code Section 53601(c)).

(d) Registered Treasury Notes or Bonds of Other States in the United States

Registered treasury notes or bonds issued by any of the other 49 states in addition to the State of 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 states, in addition to California. (Legal Authority – Government Code Section 53601(d)).

(e) Bonds, Notes, Warrants, or Other Evidences of Indebtedness of any Local Agency within the State of California

Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by a local agency, or by a department, board, agency or authority of the local agency. (Legal Authority - Government Code Section 53601(e)).

(f) Commercial Paper

Commercial paper issued by corporations to meet short term funding needs with a maturity date of less than 270 days from the issue date. Investments are restricted to only "prime" quality commercial paper with the highest ranking or of the highest letter and numerical rating as provided for by a NRSRO. (Legal Authority - Government Code Section 53601(h)). Per California Government Code Section 53601 (h), the entity that issues the commercial paper shall meet all of the following conditions in either A or B below:

A. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of five hundred million dollars ($500,000,000) and (3) have debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

B. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program wide credit enhancements, including, but not limited to, over collateralization, letter of credit or surety bonds and (3) have commercial paper that is rated "A -1" or higher, or the equivalent, by a NRSRO.

(g) Corporate or Medium-Term Notes

Corporate or medium-term notes are obligations of a domestic corporation or depository institution with a minimum credit rating of "A" by Moody's Investor Service or equivalent rating by another NRSRO at the time of purchase. If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Authority's Treasurer shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Authority's Treasurer will apply the general objectives of safety, liquidity, yield and legality to make the decision. (Legal Authority-Government Code Section 53601(k)).

(h) Money Market Mutual Funds

Money market mutual funds qualifying for Authority investment must restrict their portfolios to issues approved by the same state investment statute that defines investment alternatives. In addition, these money market mutual funds must adhere to Federal statutes regarding the size of the money market mutual fund and its safety, must attain the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs and must retain an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing assets of at least five hundred million dollars. The money market mutual funds must invest solely in investments, which the Authority itself could legally purchase. (Legal Authority-Government Code Section 53601(l)).

(i) <u>Bonds of Supranationals</u>

Senior unsecured unsubordinated obligations (United States dollar denominated) issued by or unconditionally guaranteed by one of the three supranational banking groups: International Bank for Reconstruction and Development (World Bank or IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB). Supranational banks are formed by a group of countries through an international treaty with specific objectives such as fighting poverty or promoting economic development and have been incorporated into U.S. Federal Law by Congressional Acts. Investments shall be rated "AA" or its equivalent or better by an NRSRO and have a remaining maturity of five years or less. (Legal Authority – Government Code Section 53601(q)).

(j) <u>Negotiable Certificates of Deposit</u>

Negotiable certificates of deposit issued by a nationally or state-chartered bank or a federal association, a state or Federal credit union, or by a federally licensed or state licensed branch of a foreign bank. The term of negotiable certificates of deposit is restricted for a minimum of 7 days and a maximum of one year. (Legal Authority – Government Code Section 53601(i)).

(k) <u>Repurchase Agreements</u>

Investments in repurchase agreements or securities lending agreements Repurchase Agreement is the purchase of a security pursuant to an agreement by which the counter party will deliver the underlying security by book entry, physical delivery or by a third party custodial agreement. Repurchase Agreements may only be made with banks and primary dealers with which the Authority has entered into a Master Repurchase Agreement modeled after the Public Securities Associations' Master Repurchase Agreement. (Legal Authority – Government Code Section 53601 (j)).

(l) **Bankers' Acceptances**

Bankers' acceptances are short-term debt instruments issued by a company that is guaranteed by a commercial bank. Bankers Acceptances limited to banks with a bank financial strength rating of "A" by Moody's Investor Service or equivalent rating by another Nationally Recognized Statistical Rating Organization. (Legal Authority - Government Code Section 53601(g)).

(m) **Placer County Treasurer's Investment Pool**

The Placer County Treasurer Investment Pool is governed pursuant to Government Code Sections 53600. In order to deposit investment funds into the Placer County Treasurer's Investment Pool, the Authority would have to adopt a Resolution. The deposit of funds into the pool by voluntary agencies is strictly for long-term investments purposes, funds that would remain invested for an extended period of time. (Legal Authority-Pursuant to Resolution).

(n) **Local Agency Investment Fund (LAIF)**

The Local Agency Investment Fund (LAIF) is a special fund in the California State Treasury created and governed pursuant to Government Code Sections 16429.1 *et seq.* Investments in LAIF are limited to the maximum amount as specified by LAIF. The fees charged by LAIF are limited by statute. (Legal Authority – Government Code Section 16429.1)

(o) **Collateralized Bank Deposits**

These are authorized by California Government Code Section 53637.

(p) Public Bank Obligations

Commercial paper, debt securities, or other obligations of a public bank. (Legal Authority-Government Code Section 53601(r)).

(q) Mortgage Pass-Through and Asset-Backed Securities

A mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond. Securities eligible for investment shall be rated in a rating category of “AA” or its equivalent or better by an NRSRO and have a maximum maturity remaining of five years or less. (Legal Authority-Government Code Section 53601(o)).

Master Repurchase Agreements

The Authority may invest in overnight and term repurchase agreements (Government Code Section 53601(j)) with Primary Dealers of the Federal Reserve Bank of New York or with nationally or state chartered bank with a significant relationship with the Authority. This agreement will be modeled after the Public Securities Associations Master Repurchase Agreement.

All collateral used to secure this type of transaction is to be delivered to a third party prior to release of funds. The third party shall have an account in the name of the Middle Fork Project Finance Authority. The market value of securities used as collateral for repurchase agreements shall be monitored on a daily basis and shall not be permitted to fall below a minimum of 102 percent of the value of the repurchase agreement. Collateral shall not have maturities in excess of five years. The right of substitution shall be granted, provided that permissible collateral is maintained.

In order to conform with provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct obligations of and guaranteed by the U.S. Government, U.S. Government Agencies or Government Sponsored Enterprises (U.S. Instrumentalities) securities as permitted under this Policy. The Authority will maintain a first perfected security interest in the securities subject to the repurchase agreement and shall have a contractual right to liquidation of purchased securities upon the bankruptcy, insolvency or other default of the counter party.

Investment Pools

A review of any investment pool or money market mutual fund is required prior to investing and on a periodic basis. The review shall, at a minimum, obtain the following information:

- A description of interest calculations and how it is distributed, and how gains and losses are distributed.
- A description of how securities are safeguarded (including the settlement process) and how often the securities are marked to market and how often an audit is conducted.
- A description of who may invest in the program, how often, what size deposits and withdrawals are permitted.
- A schedule for receiving statements and portfolio listings.
- Does the pool/fund maintain a reserve or retain earnings or is all income after expenses distributed to participants?
- A fee schedule, which also discloses when and how fees are assessed.
- Determining if the pool or fund is eligible for bond proceeds and/or will it accept such proceeds.

The purpose of this review is to determine the suitability of a pool or fund in relation to this Investment Policy and evaluate the risk of placing funds with that pool or fund.

Collateralization

A financial institution must provide coverage for at least 110 percent of all Authority deposits that are placed in the institution. Acceptable pooled collateral requirements are governed by California Government Code Section 53651. Although permitted by California Government Code (Section 53651(m)), real estate mortgages are not considered acceptable collateral for Authority deposits. All banks are required to provide the Authority with a regular statement of pooled collateral. This report will state that they are meeting the 110 percent collateral rule (Government Code Section

53652(a)), a listing of all collateral with location and market value, plus an accountability of the total amount of deposits secured by the pool.

The market value of the collateral must not fall below 110 percent of the value of the deposit(s) at any time. The Authority will maintain a first perfected security interest in the securities pledged against the deposit and shall have a contractual right to liquidation of pledged securities upon the bankruptcy, insolvency or other default of the counter party.

As per section 53638 of the California Government Code, any deposit shall not exceed the total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of the depository institution.

Deposits that are within the Federal Deposit Insurance Corporation (FDIC) insured limit amounts are exempt from the Authority's collateralization and minimum bank financial strength rating requirements.

Safekeeping and Custody

All securities owned by the Authority shall be held in safekeeping by a third party bank trust department acting as agent for the Authority under the terms of a custody agreement executed by the bank and the Authority. **All securities shall be received and delivered using standard delivery versus payment (DVP) procedures**. The third party bank trustee agreement must comply with Section 53608 of the California Government Code. No outside broker/dealer or advisor may have access to Authority funds, accounts or investments and any transfer of funds must be approved by the Authority's Treasurer or his designee. Investments in investment pools will be held by the Pool administrator.

Diversification and Risk

The Authority recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. To minimize the Authority's exposure to these types of risk, the portfolio should be diversified among several types of institutions, instruments and maturities. The Authority's Treasurer shall minimize default risk by prudently selecting only instruments and institutions, which at the time of placement have been evaluated for their financial viability and compliance with this Policy. Risk shall also be managed by subscribing to a portfolio management philosophy that helps to control market and interest rate risk by matching investments with cash flow requirements. In the event of a default by a specific issuer, the Authority's Treasurer shall evaluate the liquidation of securities having comparable credit risks. Diversification strategies shall be established and reviewed quarterly by the Authority's Treasurer.

No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio, therefore the overall portfolio limits by issuer have been established in the Authorized and Permitted Investments section of this Policy.

Maximum Maturities

Every effort will be made to match investment maturities to cash flow needs. Matching maturities with cash flow needs will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement and approved by the Board of Directors, no investment may be made with maturity greater than 5 years. If greater than 5-year maturity investments are approved and allowable by the Board of Directors, purchases of the investment instruments exceeding the five-year maturity shall not be made until after said approval. A permissible investment's term or remaining maturity is to be measured from the investment's settlement date to final maturity. Any forward settlement that exceeds 45 days from the time of investment is prohibited.

Maturity Constraints on Total Funds

Maturity Constraints	**Minimum % of Total Portfolio**
Under 90 days	10%
Under 5 years	100%
Maturity Constraints	**Maximum of Total Portfolio in Years**
Weighted Average Maturity	2.5
Maturity Constraints	**Maximum % of Total Portfolio**
Callable Agency Securities	25%

Internal Control and Review

The Authority's Treasurer will maintain a system of internal controls to address the following and is not limited to these areas:

- Maintain third-party custodial safekeeping
- Obtain written confirmation of authorized trades from appropriate parties
- Separation of transaction authority from accounting and record keeping
- Monitor for legal compliance

In accordance with California Government Code, the Authority's Treasurer shall annually submit this Investment Policy to the Board of Directors for its review and approval during the first quarter of each fiscal year.

This Investment Policy shall be reviewed periodically by the Authority's Treasurer as necessary and any recommended revisions shall be submitted as needed to the Board of Directors in order to insure consistency and its relevance to current law, and financial conditions and economic trends.

In conjunction with the annual financial statement audit, the external auditors shall review the investments and general activities associated with the investment program to evaluate compliance with this Investment Policy.

Reporting

The Authority's Treasurer shall submit monthly investment reports (Treasurer's Investment Report) to the Authority's Board of Directors at their regular quarterly Board meeting. The Treasurer's Investment Report shall include information about the investment of all funds in the custody of the Authority. This report shall include all items listed in Section 53646(b) of the California Government Code.

These reports will also include the following information about the investment of all funds:

A. Statement of the portfolio's compliance to the Authority's adopted Investment Policy or manner in which the portfolio is not in compliance.

B. Statement regarding the ability to meet the Authority's anticipated cash flows (scheduled expense requirements) for the next six months.

C. Portfolio summary by investment type and the percentage of each investment type's book value in relation to the portfolio total.

D. A listing of all individual investments by type and issuer held at the end of the reporting period, including the par value, market value, book value and maturity date of each investment.

E. The source of the individual investment market values.

F. A listing of the dollar weighted yield to maturity of the Authority's investments.

G. The Portfolio's effective rate of return.

The Treasurer's Investment Report shall include a monthly transaction report stating the investment transactions (purchases, deposits, redemptions or withdrawals) that occurred in the past calendar month, as required by Government Code Section 53607.

Definition of Terms

The following is a definition of cash and investment terms to assist in the administration of this Policy.

Accrued Interest- Interest earned but not yet received.

Amortization- An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Bankers Acceptance- A high quality, short-term money market instrument used to finance international trade. There has never been an instance of a failure to pay a banker's acceptance in full at its maturity date.

Basis Point- One basis point is one hundredth of one percent (.01).

Bond- A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book Entry- A system of recording securities ownership through electronic accounts. In book-entry-only issues, investors do not receive physical certificates evidencing security ownership, but a custodian holds one or more global certificates.

Book Value- The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

Broker- Someone who brings buyers and sellers together and is compensated for his/her service.

Callable Bond- A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Certificate of Deposit- A deposit of funds for a specified period of time that earns interest at a specified rate. Commonly known as "CDs." Maturities range from a few weeks to several years. Interest rates are set by the competitive market place.

Collateral- Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Commercial Paper- Short-term, negotiable unsecured promissory notes of corporations.

Coupon- The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Analysis- A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Credit Rating Service or Organization - See NRSRO.

Current Yield- The interest paid on an investment expressed as a percentage of the current price of the security.

CUSIP- The Committee on Uniform Securities Information Procedures (CUSIP) number is an identification number assigned to each publicly traded security. The CUSIP Service Bureau, operated by Standard & Poor's for the American Bankers Association, assigns the identification numbers.

Custodian- A bank or other financial institution that keeps custody of stock certificates and other assets.

Custody- The service of an organization, usually a financial institution, of holding (and reporting) a customer's securities for safekeeping. The financial institution is known as the custodian.

Delivery vs. Payment (DVP)- A settlement procedure where payment for a securities purchase is made simultaneously with the transfer of the purchased securities. The same procedure applies for a securities sale; the securities are transferred as payment is made. This procedure ensures that funds are released upon receipt of securities, thus protecting the government's assets.

Discount- The amount by which a bond sells under its par (face) value.

Diversification- Dividing investment funds among a variety of securities offering different risk characteristics and independent returns to reduce risk in the portfolio.

Duration- A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Fair Value- The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fannie Mae- Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Federal Deposit Insurance Corporation (FDIC)- A U.S, government corporation that guarantees deposits of banks and savings and loans. The FDIC provides deposit insurance to certain customer checking and savings deposits up to a current amount of $250,000 per account.

Federal Reserve System- The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks and 5,700 commercial banks that are members.

FINRA- Financial Industry Regulatory Authority – is the largest non-governmental regulator for all securities firms doing business in the United States.

Freddie Mac- Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

Ginnie Mae- Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

Government Securities- An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

Guaranteed Investment Contracts (GICS)- An agreement acknowledging receipt of funds, for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

Interest Rate- The annual yield earned on an investment, expressed as a percentage.

Interest Rate Risk- The risk associated with declines or rises in interest rates, which cause an investment in a fixed-income security to increase or decrease in value.

Investment-grade Obligations- An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a nationally recognized statistical rating organization.

Liquidity- An asset that can easily and rapidly be converted into cash without significant loss of value.

Local Agency Investment Fund (LAIF)-A pooled investment vehicle for local agencies in California sponsored by the State of California and administered by the State Treasurer.

Local Agency Investment Pool- A pooled investment vehicle sponsored by a local agency or a group of local agencies for use by other local agencies.

Mark-to-market- The practice of valuing a security or portfolio according to its market value, rather that its cost or book value.

Market Risk- The risk that the value of a security will raise or decline as a result of changes in market conditions.

Market Value- Current market price of a security. The price at which a security is trading and could presumably be purchased or sold.

Maturity- The date upon which the principal or stated value of an investment becomes due and payable.

Money Market Mutual Fund- Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, banker's acceptances, repos and federal funds).

Mutual Funds- An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.

6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus, which is updated and filed by the SEC annually.

Net Asset Value- The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. {[(Total assets) - (Liabilities)]/(Number of shares outstanding)}

Negotiable Certificate of Deposit- A large denomination certificate of deposit, which can be sold in the open market prior to maturity.

New Issue- Term used when a security is originally "brought" to market.

Note- A written promise to pay a specified amount to a certain entity on demand or on a specified date.

NRSRO- Nationally Recognized Statistical Rating Organization. Currently, the three top nationally recognized rating services: Moody's Investors Service, Inc., Standard & Poor's Corporation and Fitch Investors Services, Inc. These NRSRO's provide ratings on a variety of categories and sectors at different rating scales including bank ratings, municipal ratings, liquidity ratings, short, medium and long term investment ratings among others.
Moody's Investor Service, Inc. Bank Financial Strength Rating is A, B, C, D and E with the "A" indicating superior intrinsic financial strength.
The various NRSRO long-term bond investment grade rating categories are as follows:

Ratings Table – Long-Term

	S&P	**Moody's**	**Fitch**	**Definition**
Three Highest Rating Categories	AAA	Aaa	AAA	Highest credit quality
	AA+, AA, AA-	Aa1, Aa2, Aa3	AA+, AA, AA-	Very high credit quality
	A+, A, A-	A1, A2, A3	A+, A, A-	High credit quality

	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	Good credit quality
	BB+, BB, BB-	Ba1, Ba2, Ba3	BB+, BB, BB-	Non-investment grade

Ratings Table – Short-Term

Highest Rating Category	S&P	Moody's	Fitch	Definition
	A1+, A1	P1+, P1	F1+, F1	Highest credit quality
	Municipal Commercial Paper			
	A-1, A-1+, SP-1+, SP-1	P1, MIG1, VMIG1	F1+, F1	Highest credit quality

Par Value- The amount of principal, which must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

Portfolio- Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

Premium- The amount by which the price paid for a security exceeds the security's par value.

Prime Rate- A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.
Purchase Date- The date a security is purchased.

Rate of Return- The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (REPO)- A transaction in which a holder of securities sells those securities to an investor with an agreement to repurchase those securities for a fixed price at an agreed upon date. A master repurchase agreement is a written contract governing all future transactions between the parties and seeks to establish each party's right in the transaction.

Reverse Repurchase Agreement (Reverse Repo)- The opposite of a repurchase agreement. The investor owns the securities or collateral and a bank or dealer temporarily exchanges cash for the collateral for a specified period of time at an agreed upon interest rate.

Risk- Degree of uncertainty of return on an asset.

Sallie Mae- Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

Secondary Market- A market made for the purchase and sale of outstanding issues following the initial distribution.

Securities and Exchange Commission (SEC)- The federal agency responsible for supervising and regulating the securities industry.

Settlement Date- The date on which a trade is cleared by delivery of securities against funds.

Time Certificate of Deposit- A non-negotiable certificate of deposit, which cannot be sold prior to maturity.

Total Return- The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return

Treasury Bills- U.S. Treasury Bills which are short-term, direct obligations of the U.S. Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of $10,000 in multiples of $5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

Trustee or trust company or trust department of a bank- A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

U.S. Government Agencies- Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular agency.

U.S. Treasury Obligations- Debt obligations of the United States Government sold by the Treasury Department in the forms of Bills, Notes, and Bonds. Bills are short-term obligations that mature in 1 year or less and are sold on the basis of a rate of discount. Notes are obligations, which mature between 1 year and 10 years. Bonds are long-term obligations, which generally mature in 10 years or more.

Weighted Average Maturity- The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

Yield- The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity- The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

Yield Curve- A graphic representation that shows the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.