

**Metro**Los Angeles County
Metropolitan Transportation AuthorityOne Gateway Plaza
Los Angeles, CA 90012-2952213.922.2000
metro.net**EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE
JANUARY 22, 2009****SUBJECT: INVESTMENT POLICY****ACTION: ADOPT UPDATED INVESTMENT POLICY****RECOMMENDATION**

- A. Adopt the Investment Policy, Attachment II.
- B. Approve the Financial Institutions Resolution authorizing financial institutions to honor signatures of LACMTA Officials, Attachment III.
- C. Delegate to the Treasurer or his/her designees, the authority to invest funds for a one-year period, pursuant to California Government Code (the Code) Section 53607. See the excerpts of the Code in Attachment IV.

ISSUE

Section 53646 of the Code, requires that the Board, on an annual basis and at a public meeting, review and approve the Investment Policy. Section 53607 of the Code, requires that the Board delegate investment authority to the Treasurer on an annual basis.

Section 10.8 of the Investment Policy requires that the Treasurer submit the Financial Institutions Resolution to the Board annually for approval.

POLICY IMPLICATIONS

The Board approves the objectives and guidelines that direct the investment of operating funds. The revisions to the Investment Policy maintain consistency with language contained in the Code and expand the broker-dealer base available to internal staff. See the summary of the changes to the current Investment Policy in Attachment I.

The approval of the Financial Institutions Resolution will assist staff in implementing the administrative duties arising from policy directives such as opening, closing and changing bank accounts.

ALTERNATIVES CONSIDERED

The Investment Policy and the Code require an annual review and adoption of the Investment Policy, the delegation of investment authority and the annual approval of the Financial Institutions Resolution. Should the Board elect not to delegate the investment authority annually or approve the Financial Institutions Resolution, the Board would assume daily responsibility for the investment of working capital funds and for the approval of routine administrative actions.

FINANCIAL IMPACT

The funds required to update the Investment Policy are included in the FY09 budget in cost center 5210 and project number 610340.

BACKGROUND

The Investment Policy provides staff and external investment managers with guidelines to enable the agency to maximize its return on investments subject to the primary objectives of safety and liquidity. The delegation of investment authority transfers to the Treasurer the responsibility and accountability to perform the investment function for a one-year period.

Financial Institutions require Board authorization to establish custodial, trustee and commercial bank accounts. In accordance with the Investment Policy, staff reviewed the resolution and determined no changes were needed.

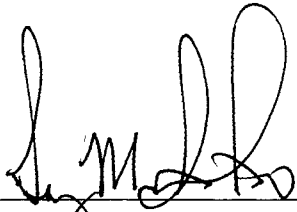
NEXT STEPS

Immediately upon Board approval, distribute the Investment Policy to external investment managers and broker-dealers. Issue copies of the Investment Policy and Financial Institutions Resolution to our financial institutions.

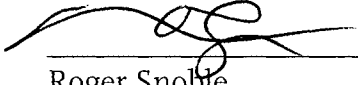
ATTACHMENTS

Attachment I:	Summary of Proposed Changes to LACMTA Investment Policy
Attachment II:	LACMTA Investment Policy
Attachment III:	Financial Institutions Resolution
Attachment IV:	California Government Code: Section 16429.1 to 16429.4 and Section 53600 to 53609

Prepared by: Donna R. Mills, Assistant Treasurer
Marshall M. Liu, Principal Financial Analyst



Terry Matsumoto
Chief Financial Services Officer and Treasurer



Roger Snoble
Chief Executive Officer

ATTACHMENT I
Summary of Proposed Changes to LACMTA Investment Policy

Section Change	Current Text	Proposed Text	Rationale
<p>Section 1.0 Policy Page 3</p>	<p>It is the policy of the Los Angeles County Metropolitan Transportation Authority (LACMTA) to ensure that the temporarily idle funds of the agency are prudently invested to preserve capital and provide necessary liquidity, while maximizing earnings.</p>	<p>It is the policy of the Los Angeles County Metropolitan Transportation Authority (LACMTA) to ensure that the temporarily idle funds of the agency are prudently invested to preserve capital and provide necessary liquidity, while maximizing earnings, and conforming to state and local statutes governing the investment of public funds.</p> <p>This policy conforms to the California Government Code (“Code”) as well as to customary standards of prudent investment management. Investments may only be made as authorized by the Code, Section 53600 et seq., Sections 16429.1 through 16429.4 and this policy. Should the provisions of the Code become more restrictive than those contained herein, such provisions will be considered as immediately incorporated in this policy. Changes to the code that are less restrictive than this Policy may be adopted by the Board of Directors (Board).</p>	<p>To clarify the investment policy and to relocate selected sections to Section 1.0 Policy from Section 2.0 Scope.</p>
<p>Section 2.0 Scope Item # 2.1 Page 3</p>	<p>Investments may only be made as authorized by the California Government Code (“Code”) Section 53600 et seq., Sections 16429.1 through 16429.4 and this policy. This policy conforms to the Code as well as to customary standards of prudent investment management. Should the provisions of the Code become more restrictive than those contained herein, such provisions will be considered as immediately incorporated in</p>	<p></p>	<p>To relocate this paragraph to Section 1.0 Policy.</p>

ATTACHMENT I
Summary of Proposed Changes to LACMTA Investment Policy

Section Change	Current Text	Proposed Text	Rationale
Section 3.0 Investment Objective Item 3.2 Page 3	<p>this policy. Changes to the code that are less restrictive than this Policy may be adopted by the Board of Directors (Board).</p> <p>... However, if liquidity needs require that investments be sold at a loss, or because of a downgrade of credit quality, national or public policy issues, or to take advantage of market conditions which will result in a gain on reinvestment of the sale proceeds, the security may be sold and the decline in value shall be recorded as a loss.</p>	<p>... However a security may be sold prior to its maturity and a capital gain or loss recorded if liquidity needs arise, or in order to improve the quality, or rate of return of the portfolio in response to market conditions and/or LACMTA risk preferences</p>	<p>To clarify the criteria on the sale of securities by external investment managers.</p>
Section 6.0 Selection of Depository Institutions, Investment Managers and Broker-Dealers Item #6.1 Page 5	<p>To minimize the risk to overall cash and investment portfolio,</p>	<p>To minimize the risk to <i>the</i> overall cash and investment portfolio,</p>	<p>Editorial change.</p>
Section 6.0 Selection of Depository Institutions, Investment Managers and Broker-Dealers Item #6.3A Page 6	<p>A. Internal investment manager will only ...</p>	<p>A. Internal investment manager will only Should market conditions limit access to inventory, the Treasurer may approve executing transactions through non-Primary Dealers who meet all of the criteria listed below: a. The broker dealer must qualify under Securities Exchange Commission rule 15C3-1 (Uniform Net Capital Rule); b. Must be licensed by the state as a broker/dealer as defined in Section 25004 of the Corporations code or a member of a federally</p>	<p>To revise the criteria on the use of non primary dealers for the internally managed portfolio.</p>

ATTACHMENT I
Summary of Proposed Changes to LACMTA Investment Policy

Section Change	Current Text	Proposed Text	Rationale
		<p>registered securities exchange (i.e. NASD, SEC, MISRB);</p> <p>c. Have been in operation for more than five years; and</p> <p>d. Have a minimum annual trading volume of \$100 billion in money market instruments or \$500 billion in U.S. Treasuries and Agencies.</p>	
<p>Section 5.1A Items # 1 through 5 Pages 11 and 12 Other Restrictions</p>	<p>Maximum effective maturity</p>	<p>Maximum maturity of five (5) years unless a longer maturity is approved by Board of Directors, either specifically or as part of an investment program, at least three (3) months prior to purchase.</p>	<p>To clarify and maintain consistency with language contained in California Government Code.</p>
<p>Section 5.1A Item # 9 Page 13 Other Restrictions</p>	<p>See CA Government Code Section 53601, (i)</p>	<p>See California Government Code Section 53601, (i)</p>	<p>To correct reference to applicable section of the California Government Code</p>
<p>Section 5.1A Item # 10 Page 14 Other Restrictions</p>	<p>Maximum five (5) year maturity.</p>	<p>Maximum maturity of five (5) years unless a longer maturity is approved by Board of Directors, either specifically or as part of an investment program, at least three (3) months prior to purchase.</p>	<p>To clarify and maintain consistency with language contained in California Government Code.</p>
<p>Section 5.1A Item # 11 Page 15 Type of Investment</p>	<p>Shares of beneficial interest issued by diversified management companies investing in the securities and obligations as authorized, by California State Code 53601 and 53630 et seq.</p>	<p>Shares of beneficial interest issued by diversified management companies investing in the securities and obligations as authorized, by California Government Code 53601 and 53630 et seq.</p>	<p>To correct reference to California Government Code and not California State Code</p>

ATTACHMENT II

Los Angeles County Metropolitan Transportation Authority

INVESTMENT POLICY

INVESTMENT POLICY

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1.0 Policy

It is the policy of the Los Angeles County Metropolitan Transportation Authority (LACMTA) to ensure that the temporarily idle funds of the agency are prudently invested to preserve capital and provide necessary liquidity, while maximizing earnings, and conforming to state and local statutes governing the investment of public funds.

This policy conforms to the California Government Code ("Code") as well as to customary standards of prudent investment management. Investments may only be made as authorized by the Code, Section 53600 et seq., Sections 16429.1 through 16429.4 and this policy. Should the provisions of the Code become more restrictive than those contained herein, such provisions will be considered as immediately incorporated in this policy. Changes to the code that are less restrictive than this Policy may be adopted by the Board of Directors (Board).

2.0 Scope

2.1 This policy sets forth the guidelines for the investment of surplus General, Special Revenue, Capital Projects, Enterprise (excluding cash and investments with fiscal agents), Internal Service, Expendable Trust Funds, and any new fund created by the Board, unless specifically exempted. Excluded from this policy are guidelines for the investment of proceeds related to debt financings, defeased lease transactions, Agency (Deferred Compensation, 401K, and Benefit Assessment District) and Pension Trust Funds.

2.2 Internal and external portfolio managers may be governed by Portfolio Guidelines that may on an individual basis differ from the total fund guidelines outlined herein. The Treasurer is responsible for monitoring and ensuring that the total funds subject to this policy remain in compliance with this policy, and shall report to the Board regularly on compliance.

3.0 Investment Objectives

3.1 The primary objectives, in priority order, of investment activities shall be:

A. Safety: Safety of principal is the foremost objective of the investment program. The investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The LACMTA shall seek to ensure that capital losses are avoided whether from institutional default, broker-dealer default, or erosion of market value. Diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

B. Liquidity: The investment portfolio will remain sufficiently liquid to meet all operating requirements that might be reasonably anticipated.

C. Yield: The LACMTA shall manage its funds to maximize the return on investments consistent with the two objectives above, with the goal of exceeding the performance benchmarks (Section 12.0) over a market cycle (typically a three to five year period).

3.2 It is policy to hold investments to maturity or until market value equals or exceeds (historical) cost. However a security may be sold prior to its maturity and a capital gain or loss recorded if liquidity needs arise, or in order to improve the quality, or rate of return of the portfolio in response to market conditions and/or LACMTA risk preferences.

Internal and external investment managers shall report such losses to the Treasurer and Chief Financial Services Officer quarterly.

- 3.3 Investments shall be made with the judgment, skill, and diligence of a prudent investor acting in like capacity under circumstances then prevailing, for the sole benefit of the LACMTA, and shall take into account the benefits of diversification in order to protect the investment from the risk of substantial loss.
- 3.4 The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with this investment policy, written portfolio guidelines and procedures 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 in the quarterly investment report to the Board, and appropriate action is taken to control adverse developments.

4.0 Delegation of Authority

- 4.1 The Board shall be the trustee of funds received by the LACMTA. In accordance with the California Government Code (CGC) Section 53607, the Board hereby delegates the authority to invest or reinvest the funds, to sell or exchange securities so purchased and to deposit securities for safekeeping to the Treasurer for a one year period, who thereafter assumes full responsibility for such transactions and shall make a monthly report of those transactions to the Board. Subject to review by the Board, the Board may renew the delegation of authority each year.
- 4.2 The Treasurer shall establish written procedures for the operation of the investment program consistent with this investment policy, including establishment of appropriate written agreements with financial institutions. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. The Treasurer may engage independent investment managers to assist in the investment of its financial assets.
- 4.3 No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.
- 4.4 Officers and employees involved in the investment process shall be governed by the standards regarding ethical behavior and conflicts of interest established in the Los Angeles County Metropolitan Transportation Authority Ethics Policy and annually shall file a Statement of Economic Disclosure with the Ethics Office.

5.0 Permitted Investments

- 5.1 All funds which are not required for immediate cash expenditures shall be invested in income producing investments or accounts, in conformance with the provisions and restrictions of this investment policy as defined in Section 5.1A of this investment policy (Attached) and as specifically authorized by the California Government Code, (Sections 53600, et seq.).
- 5.2 In order to reduce overall portfolio risk, investments shall be diversified among security type, maturity, issuer and depository institutions. See Section 5.1A for specific concentration limits by type of investment. The following issue concentration limits shall apply:
- A. No more than 15% of the portfolio may be invested in any one Federal Agency or government-sponsored issue.
 - B. The obligations of a single corporation or depository institution shall not exceed 10% of the funds subject to this policy. In calculating this concentration limit, commercial paper, bankers' acceptances, medium term notes, asset-backed securities, and negotiable certificates of deposit shall be included; deposits collateralized per Section 7.3 of this policy are excluded from this calculation.

- 5.3 Maturities of individual investments shall be diversified to meet the following objectives:
- A. Investment maturities will be first and foremost determined by anticipated cash flow requirements.
 - B. No investment instrument shall be purchased which has a stated maturity of more than five years from the date of purchase, unless the instrument is specifically approved by the Board or is approved by the Board as part of an investment program and such approval must be granted no less than three months prior to the investment.
 - C. The average duration of the externally managed funds subject to this policy shall not exceed 150% of the benchmark duration. The weighted average duration of the internal portfolios shall not exceed three (3) years.
- 5.4 State and local government sponsored Investment Pools and money market mutual funds as authorized by this policy are subject to due diligence review prior to investing and on a continual basis as established in Section 5.1 A, #11 and #12.
- 5.5 This Investment Policy specifically prohibits the investment of any funds subject to this policy in the following securities:
- A. Derivative securities, defined as any security that derives its value from an underlying instrument, index, or formula, are prohibited. The derivative universe includes, but is not limited to, structured and range notes, securities that could result in zero interest accrual if held to maturity¹, variable rate, floating rate or inverse floating rate investments, financial futures and options, and mortgage derived interest or principal only strips. Callable or puttable securities with no other option features, securities with one interest rate step-up feature, and inflation-indexed securities meeting all other requirements of this Policy are excluded from this prohibition, as are fixed rate mortgage-backed securities and asset-backed securities.
 - B. Reverse repurchase agreements.

6.0 Selection of Depository Institutions, Investment Managers and Broker-Dealers

- 6.1 To minimize the risk to the overall cash and investment portfolio, prudence and due diligence as outlined below shall be exercised with respect to the selection of Financial Institutions in which funds are deposited or invested. The LACMTA's Financial Advisor (FA) will conduct competitive processes to recommend providers of financial services including commercial banking, investment management, investment measurement and custody services.
- A. In selecting Depositories pursuant to California Government Code (CGC) Sections 53600 (et seq.), the credit worthiness, financial stability, and financial history of the institution, as well as the cost and scope of services and interest rates offered shall be considered. No funds will be deposited in an institution unless that institution has been evaluated by a nationally recognized independent rating service as satisfactory or better. The main depository institutions will be selected on a periodic and timely basis.

¹California Debt and Investment Advisory Commission definition: Zero interest accrual means the security has the potential to realize zero interest depending upon the structure of the security. Zero coupon bonds and similar investments that start at a level below the face value are legal because their value does increase.

- B. Deposits of \$100,000 or less which are insured pursuant to federal law by the Federal Deposit Insurance Corporation (FDIC), or the National Credit Union Administration (NCUA) may be excluded from the independent rating service evaluation requirement above and from the collateralization requirements of Section 7.3 of this policy, at the Treasurer's discretion. A written waiver of securitization shall be executed, provided to the Depository Institution, and kept on file in the Treasury Department.
- C. The Treasurer shall seek opportunities to deposit funds with disadvantaged business enterprises, provided that those institutions have met the requirements for safety and reliability and provide terms that are competitive with other institutions.

6.2 In selecting external investment managers and brokers, past performance, stability, financial strength, reputation, area of expertise, and willingness and ability to provide the highest investment return at the lowest cost within the parameters of this Investment Policy and the Code shall be considered. External investment managers must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor Act of 1940.

6.3 Pursuant to Code Section 53601.5, the LACMTA and its investment managers shall only purchase statutorily authorized investments either from the issuer, from a broker-dealer licensed by the state, as defined in Section 25004 of the Corporations Code, from a member of a federally regulated securities exchange, a national or state-chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank.

A. Internal investment manager will only purchase or sell securities from broker-dealers that are Primary Dealers in U.S. Government Securities or are a direct affiliate of a Primary Dealer. Internal investment manager will only purchase securities from broker-dealers who have returned a signed Receipt of Investment Policy and completed the Broker-Dealer Questionnaire, and have been approved by the Treasurer (see Appendices B and C). A current copy of the Broker-Dealer's financial statements will be kept on file in the Treasury Department. Should market conditions limit access to inventory, the Treasurer may approve executing transactions through non-Primary Dealers who meet all of the criteria listed below:

- a. The broker dealer must qualify under Securities Exchange Commission rule 15C3-1 (Uniform Net Capital Rule);
- b. Must be licensed by the state as a broker/dealer as defined in Section 25004 of the Corporations code or a member of a federally registered securities exchange (i.e. NASD, SEC, MISRB);
- c. Have been in operation for more than five years; and
- d. Have a minimum annual trading volume of \$100 billion in money market instruments or \$500 billion in U.S. Treasuries and Agencies.

B. External investment managers may purchase or sell securities from non-Primary Dealers qualified under U.S. Securities and Exchange Commission Rule 15C3-1, the Uniform Net Capital Rule, and provided that the dealer is a certified member of the National Association of Securities Dealers. External investment managers shall submit, at least quarterly, a list of the non-Primary Dealers used during the period.

C. External investment managers must certify in writing that they will purchase securities in compliance with this Investment Policy, LACMTA Procedures, and applicable State and Federal laws.

6.4 Depositories and external investment managers shall sign a Certification of Understanding. The Certification of Understanding (see Appendix A) states that the entity:

- A. Has read and is familiar with the Investment Policy and Guidelines as well as applicable Federal and State Law;
- B. Meets the requirements as outlined in this Policy;
- C. Agrees to make every reasonable effort to protect the assets from loss;
- D. Agrees to notify the LACMTA in writing of any potential conflicts of interest.

Completed certifications shall be filed in the Treasurer's Office. Failure to submit a Certification of Understanding shall result in the withdrawal of all funds held by that financial institution, or investment manager and/or the rescission of any and all authority to act as an agent to purchase or invest funds.

- 6.5 All broker-dealers who do business with the LACMTA's internal investment managers shall sign a Receipt of Investment Policy. The Receipt of Investment Policy (see Appendix B) states that the broker-dealer:
- A. Has received, read, and understands the Policy;
 - B. Has communicated the requirements of the Policy to all personnel who may select investment opportunities for presentation.

Failure to submit a Receipt of Investment Policy shall preclude the LACMTA from purchasing or selling securities from such broker-dealer. Completed receipts shall be filed in the Treasurer's Office.

7.0 Custody and Safekeeping of Securities and LACMTA Funds

- 7.1 Securities and collateral for repurchase agreements shall be purchased and maintained for the benefit of the LACMTA in the Trust Department or safekeeping department of a bank as established by a written third party safekeeping agreement between the LACMTA and the bank. Specific collateralization levels are defined in Section 5.1A.
- 7.2 All investment transactions shall be settled "delivery vs. payment", with the exception of deposits, mutual fund investments, and Local Agency Investment Fund or other Local Government Investment Pools. Delivery may be physical, via a nationally recognized securities depository such as the Depository Trust Company, or through the Federal Reserve Book Entry system.
- 7.3 Funds deposited shall be secured by a Depository in compliance with the requirements of California Government Code Section 53652. Such collateralization shall be designated and agreed to in writing.
- 7.4 Original copies of negotiable certificates of deposit shall be held in a qualified safekeeping institution.

8.0 Reports and Communications

- 8.1 The Treasurer is responsible for ensuring compliance with all applicable Local, State, and Federal laws governing the reporting of investments made with public funds. All investment portfolios will be monitored for compliance. Non-compliance issues will be included in the quarterly Board report as stated in Section 8.3 of this Policy.

- 8.2 The Treasurer shall annually submit a statement of investment policy to the Board for approval. The existing approved policy will remain in effect until the Board approves the recommended statement of investment policy.
- 8.3 The Treasurer shall render a quarterly cash, investment, and transaction report to the CEO and Board, and quarterly to the Internal Auditor within 30 days following the end of the quarter covered by the report. The report shall include a description of LACMTA's funds, investments, or programs that are under the management of contracted parties, including lending programs. The report shall include as a minimum:
- A. Portfolio Holdings by Type of Investment and Issuer
 - B. Maturity Schedule and Weighted Average Maturity (at market)
 - C. Weighted Average Yield to Maturity
 - D. Return on Investments versus Performance Benchmarks on a quarterly basis
 - E. Par, Book and Market Value of Portfolio for current and prior quarter-end
 - F. Percentage of the portfolio represented by each investment category
 - G. Total Interest Earned
 - H. Total Interest Received
 - I. A statement of compliance with this policy, or notations of non-compliance.
 - J. At each calendar quarter-end a subsidiary ledger of investments will be submitted with the exception listed in 8.3J.
 - K. For investments that have been placed in the Local Agency Investment Fund, in Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association, in National Credit Union Administration insured accounts in a credit union, in a county investment pool, or in shares of beneficial interest issued by a diversified management company that invest in the securities and obligations as authorized by this Policy and the Code, the most recent statement received from these institutions may be used in lieu of the information required in 8.3I.
 - L. At each calendar quarter-end the report shall include a statement of the ability to meet expenditure requirements for the next six months.
- 8.4 Internal and external investment managers shall monitor investments and market conditions and report on a regular and timely basis to the Treasurer.
- A. Internal and external investment managers shall submit monthly reports to the Treasurer, such reports to include all of the information referenced in Section 8.3, items A-J of this policy. Portfolios shall be marked-to-market monthly and the comparison between historical cost (or book value) and market value shall be reported as part of this monthly report.
 - B. Internal and external investment managers shall monitor the ratings of all investments in their portfolios on a continuous basis and report all credit downgrades of portfolio securities to the Treasurer in writing within 24 hours of the event. If an existing investment's rating drops below the minimum allowed for new investments made pursuant to this policy, the

investment manager shall also make a written recommendation to the Treasurer as to whether this security should be held or sold.

- C. External and internal Investment Managers shall immediately inform the Treasurer, the Executive Officer, Finance and the Chief Financial Officer in writing of any major adverse market condition changes and/or major portfolio changes. The Executive Officer, Finance shall immediately inform the Board in writing of any such changes.
- D. External investment managers shall notify the LACMTA internal managers daily of all trades promptly, via fax.
- E. Internal investment managers will maintain a file of all trades.

9.0 Portfolio Guidelines

Portfolio Guidelines are the operating procedures used to implement the Investment Policy approved by the Board. The Treasurer may impose additional requirements or constraints within the parameters set by the Investment Policy.

10.0 Internal Control

- 10.1 The Treasurer shall establish a system of internal controls designed to prevent losses of public funds arising from fraud, employee or third party error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees or agents. Such internal controls shall be approved by the Executive Officer, Finance and Treasurer and shall include authorizations and procedures for investment transactions, custody/safekeeping transactions, opening and closing accounts, wire transfers, and clearly delineate reporting responsibilities.
- 10.2 Treasury personnel and LACMTA officials with signature authority shall be bonded to protect against possible embezzlement and malfeasance, or at the option of the governing board self-insured.
- 10.3 Electronic transfer of funds shall be executed upon the authorization of two official signatories.
- 10.4 Transaction authority shall be separated from accounting and record keeping responsibilities.
- 10.5 All investment accounts shall be reconciled monthly with custodian reports and broker confirmations by a party that is independent of the investment management function. Discrepancies shall be brought to the attention of the investment manager, the Assistant Treasurer, the Controller, and if not resolved promptly, to the Executive Officer, Finance and Treasurer.
- 10.6 The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide independent confirmation of compliance with policies and procedures.
- 10.7 The Treasurer is responsible for the preparation of the cash flow model. The cash flow model shall be updated monthly based upon the actual and projected cash flow.

Annually, the Treasurer shall notify the external investment managers of the cash flow requirements for the next twelve months. The Treasurer shall monitor actual to maximum maturities within the parameters of this policy.

- 10.8 The Treasurer shall annually submit the Financial Institutions Resolution to the Board for approval. The existing resolution will remain in effect until the Board approves the recommended resolution.

11.0 Purchasing Guidelines

- 11.1 Investment managers shall purchase and sell securities at the price and execution that is most beneficial to the LACMTA. The liquidity requirements shall be analyzed and an interest rate analysis shall be conducted to determine the optimal investment maturities prior to requesting bids or offers. Investments shall be purchased and sold through a competitive bid/offer process. Bids/offers for securities of comparable maturity, credit and liquidity shall be received from at least three financial institutions, if possible.
- 11.2 Such competitive bids/offers shall be documented on the investment managers' trade documentation. Supporting documentation from the Wall Street Journal, Bloomberg or other financial information system shall be filed with the trade documentation as evidence of general market prices when the purchase or sale was effected.

12.0 Benchmarks

Internal and external investment managers' performance shall be evaluated against the following agreed upon benchmarks. If the investment manager does not meet its benchmark over a market cycle (3 to 5 years), the Treasurer shall determine and set forth in writing reasons why it is in the best interests of the LACMTA to replace or retain the investment manager.

Portfolio

Investment Benchmarks

Intermediate Duration Portfolios

Merrill Lynch 1-3 year Government
& Corporate Index

Short Duration Portfolios

Three month Treasury Bill

SUMMARY OF AUTHORIZED INVESTMENT TYPES & RESTRICTIONS *

* See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

** The percentage of portfolio authorized is based on market value.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
1.	Bonds Issued by the Authority.	100%	Maximum final maturity of five (5) years unless a longer maturity is approved by Board of Directors, either specifically or as part of an investment program, at least three (3) months prior to purchase.
2.	United States Treasury notes, bonds, bills or certificates of indebtedness or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.	100%	Maximum final maturity of five (5) years unless a longer maturity is approved by Board of Directors, either specifically or as part of an investment program, at least three (3) months prior to purchase.
3.	Registered state warrants or treasury notes or bonds of the State of California.	25%	Maximum final maturity of five (5) years unless a longer maturity is approved by Board of Directors, either specifically or as part of an investment program, at least three (3) months prior to purchase. Such obligations must be rated A1, SP-1 or equivalent or better short term; or Aa/AA or better long term, by a national rating agency.
4.	Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California.	25%	Maximum final maturity of five (5) years unless a longer maturity is approved by Board of Directors, either specifically or as part of an investment program, at least three (3) months prior to purchase. Such obligations must be rated A1, SP-1 or equivalent or better short term; or Aa/AA or better long term, by a national rating agency.

SUMMARY OF AUTHORIZED INVESTMENT TYPES & RESTRICTIONS *

* See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

** The percentage of portfolio authorized is based on market value.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
5.	Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, the Federal Home Loan Banks, the Tennessee Valley Authority, or in obligations, participations or other instruments of or issued by, a federal agency or a United States Government-sponsored enterprise.	50%	No more than 15% of the portfolio may be invested in any one Federal Agency or government-sponsored issue. Minimum rating of A or its equivalent or better by a nationally recognized rating source.
6.	Bill of exchanges or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc., and Standard & Poor's Corporation.	40%	Purchases of bankers' acceptances may not exceed 180 days maturity. No more than 10% of the portfolio may be invested in any one bank or corporate issuer.
7.	Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by a nationally recognized rating source. Eligible paper is further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000) and having an "A" or higher rating for the issuer's debentures, other than commercial paper, if any, as provided for by a nationally recognized rating source.	25%	Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of an issuing corporation. No more than 10% of the portfolio may be invested in any one Corporate or bank issuer. If rated by more than one service, both ratings must meet the minimum criteria.

