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## FINANCE, BUDGET AND EFFICIENCY

### COMMITTEE RECOMMENDATION

The Committee concurred with staff recommendation to adopt the MTA Investment Policy as revised.

FBE 4



FBE 4

July 16, 1995

Los Angeles County  
Metropolitan  
Transportation  
Authority

818 West Seventh Street  
Suite 300  
Los Angeles, CA 90017

213.972.6000

Mailing Address:  
P.O. Box 194  
Los Angeles, CA 90053

**TO:** FINANCE, BUDGET AND EFFICIENCY COMMITTEE  
**THROUGH:** FRANKLIN E. WHITE  
**FROM:** JUDITH T. PIERCE *J. Pierce*  
**SUBJECT:** ADOPTION OF THE MTA INVESTMENT POLICY

**RECOMMENDATION**

Adopt the MTA Investment Policy as revised.

**ALTERNATIVE CONSIDERED**

None.

**IMPACT ON BUDGET OBJECTIVES**

The Investment Policy provides checks and balances to enable the MTA to meet its objectives of safety and liquidity while simultaneously providing the flexibility to allow the MTA to meet its performance objectives.

**BACKGROUND**

The purpose of the Investment Policy is to clarify existing policies, revise outdated policies, document new investment policies and specify parameters for the investment of discretionary funds.

The MTA Board of Directors adopted the MTA Investment Policy on October 27, 1993. This policy has been reviewed and revised by the Chief Financial Officer. The revised policy incorporates the internal controls required for prudent cash management.

Prepared by:

*Joya C. de Foor*

Joya C. De Foor  
Assistant Treasurer

*Ronny J. Goldsmith*

Ronny J. Goldsmith  
Chief Financial Officer

## INVESTMENT POLICY

### Changes from MTA Investment Policy Approved in October 1993

#### 1.1 Scope

- Defines the surplus funds governed by the Policy.
- States that the Policy conforms to customary standards of prudent investment management.
- Allows the automatic revision of the Policy to conform to State Code should the Code become more restrictive.
- Clarifies that additional, more restrictive guidelines may be imposed on all (internal & external) investment managers.

#### 1.2 Investment Objectives

- Indemnifies persons acting within this policy. (Included here rather than in a separate section).
- Clarifies the meanings of safety, liquidity and yield.

#### 1.3 Delegation of Authority

NO CHANGE

#### 1.4 Permitted Investments (NEW SECTION)

- Addresses diversification, maximum maturity, and average weighted maturity issues (Formerly included in a separate section).
- Establishes a five year investment program.
- Provides limited definition of derivatives.
- Prohibits investment in derivatives.

**1.5 Selection of Financial Institutions, Investment Managers and Dealers**

- Includes a section which was previously entitled "Relationship with Financial Institutions, Investment Managers & Dealers".
- Adds a policy that would require the withdrawal of funds from and the rescission of any and all authority to act as an agent to purchase or invest funds for the Authority when a financial institution, manager, or broker/dealer fails to submit a Certification of Understanding.

**1.6 Custody and Safekeeping of Securities and Authority Funds**

- Requires "delivery vs. payment" method of settlement.
- Defines collateralization, lien and security interest requirements for uninsured deposits exceeding \$100,000.

**1.7 Reports**

- Combines sections relating to reporting and policy adoption.
- Identifies information to be included in the Treasurer's report.
- Mandates standard reporting format for all Investment Managers.
- Includes portfolio valuation requirements.
- Includes monitoring requirements and provides instructions in the event of rating "downgrades".

**2.1 Portfolio Guidelines (NEW SECTION)**

- Defines and sets forth portfolio guidelines.
- Permits the Treasurer to impose additional guidelines within policy parameters.

**2.2 Accounting Guidelines (NEW SECTION)**

- Mandates segregation of transaction authority, accounting and recording responsibilities.
- Mandates monthly reconciliation of investment accounts.
- Establishes Authority's policy with regard to sales before maturity.
- Establishes conditions and reporting requirements when a security is sold at a loss.
- Establishes responsibility for preparation and maintenance of the Authority's cash flow model.
- Mandates the annual identification of maximum maturities by fund type.
- Establishes that maximum maturities are to be monitored within the policy and law.
- Establishes policy for the treatment of negotiable certificates of deposit and written confirmation for all investment transactions.

**2.3 Purchasing Guidelines (NEW SECTION)**

- Establishes process and documentation requirements for the competitive sale or purchase of investments.

**2.4 Communications Guidelines (NEW SECTION)**

- Requires the written notification of the Treasurer and Chief Financial Officer in the event of major market conditions changes and/or major portfolio changes.
- Requires the Treasurer to notify the Board immediately of any major market condition changes and/or major portfolio changes.

**2.5 Benchmarks (NEW SECTION)**

- Establishes benchmarks for the evaluation of externally and internally managed portfolios.
- Requires the Treasurer, when the benchmark is not met during a market cycle, to determine whether a manager should be replaced and submit written documentation to support the recommendation.

### **Certification of Understanding**

- Expands Certification to include acknowledgement that failure to submit a Certification will result in the withdrawal by the Authority and immediate revocation of any rights to act as an agent of the Authority.

### **Summary of State-Authorized Investment Types & Restrictions**

- Mandates more stringent requirements for investments in repurchase and reverse repurchase agreements, including collateralization requirements, credit quality and prior approvals.
- Establishes maximum limits (percentage of portfolio) for some investment categories which are appropriate for MTA, but more conservative than that allowed by State Code.
- Does not include approval for the investments in:
  1. Moneys held by a trustee or other fiscal agent and pledged to the payment or security of bonds, other indebtedness, obligations under a lease, installment sale, or COPs, lease installment sale, etc. (To be included in the Debt Policy)
  2. Any mortgage pass through security, collateralized mortgage obligation, mortgaged-backed or other pay-through bond, equipment-leased backed certificate, consumer receivable pass-through certificate, or consumer receivable bond. (Derivatives)
  3. Financial futures or financial option contracts in any of the investment categories. (Derivatives)

**INVESTMENT POLICY**  
**Questions & Answers**

**Q: Why should a public agency have an investment policy?**

**A:** The purpose of an investment policy is to establish, clarify and document policies related to the organization's financial assets and to maintain conformance with applicable federal, state and local regulations. Other agencies with investment policies include:

- City of Los Angeles
- Community Redevelopment Agency
- County of Los Angeles
- State of California Treasurers Office
- Local Agency Investment Fund

**Q: Who provided input to the proposed policy?**

**A:** The proposed policy was reviewed and revised by the Chief Financial Officer.

**Q: Why should the Board delegate its authority?**

**A:** The delegation is permitted by California Government Code and relieves the Board of the day-to-day administration of over \$ 700 million in liquid assets and approximately \$ 3 billion in debt.

**Q: What type of investments are allowed?**

**A:** Only those investments allowed by California Government Code and MTA Investment Policy are permitted.

**Q: Who does the investing?**

**A:** The Authority has internal and external investment managers. Internal managers are MTA's Treasury staff. The external managers either were selected by competitive procurement or were on contract to a predecessor agency. The external managers are:

Amervest Company, Inc. (DBE)  
Bear Stearns Asset Management  
Danson & Neuhar (WBE)  
LM Capital (DBE)  
V. A. Reid & Associates (DBE)  
Wertheim Schroder Investment Services

The Authority also has funds invested in the LA County Treasurers Investment Pool.

**Q: How is oversight provided?**

**A:** The Investment Policy establishes the framework and guidelines under which the Treasurer's Office manages MTA's financial assets. The Treasurer is responsible for the day to day cash management activities of the MTA.

In addition, the Investment Policy requires periodic reporting to the Board; identifies information to be included in those reports; mandates standard reporting format for internal and external investment managers; identifies portfolio operation requirements; and establishes monitoring requirements.

Finally, the Authority's financial advisers and a third party performance consultant review investment manager performance, as well as compliance with MTA's Investment Policy annually.



# Investment Policy

## 1.1 Scope

- 1.1.1 This policy sets forth the guidelines of the Los Angeles County Metropolitan Transportation Authority (the "Authority") for the investment of surplus General, Special Revenue, Capital Projects, Enterprise (excluding cash and investments with fiscal agents), Internal Service, and Expendable Trust Funds. Excluded from this policy are guidelines for the investment of Debt Service, Agency (Deferred Compensation, 401K, and Benefit Assessment District) and Pension Trust Funds.
- 1.1.2 The objective of this policy is to ensure temporarily idle funds are prudently invested to preserve capital and provide necessary liquidity, while maximizing earnings.
- 1.1.3 Investments may only be made as authorized by the California Government Code and this policy. This policy conforms to the Code as well as 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 this policy.
- 1.1.4 Internal and external portfolio managers may be governed by Portfolio Guidelines which contain more restrictive investment options than the investments permitted by this policy.

## 1.2

### Investment Objectives

1.2.1 Authorized investments shall be made with care, skill, prudence, & diligence, under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. These persons, acting in accordance with this policy 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 monthly investment report to the Board, and appropriate action is immediately considered to control adverse developments.

1.2.2 The objectives of this Investment Policy shall be governed by the following criteria:

- A. Safety of Principal -- It is the primary duty of the Authority to protect, preserve and maintain cash and investments placed in its trust. The Authority shall seek to ensure that capital losses are avoided, whether from institutional default, broker-dealer default, or erosions of market value of securities.
- B. Liquidity -- An adequate percentage of the portfolio should be maintained in liquid short-term securities which can be converted to cash if necessary to meet disbursement requirements. The portfolio should contain investments that offer the flexibility to be easily sold at any time with minimal risk of loss of either principal or interest.
- C. Yield -- The Authority's portfolio shall be designed to attain a market average rate of return through economic cycles.

## 1.3

### Delegation of Authority

- 1.3.1 The Board of Directors (the "Board") of the Authority shall be the custodian of funds received by the Authority. In accordance with the California Government Code Section 53607, the Board may delegate to the Treasurer the authority to make investments in compliance with this policy. The Treasurer may engage independent investment managers to assist in the investment of the financial assets of the Authority pursuant to the parameters set forth in this policy and the California Government Code.
- 1.3.2 The management responsibility for the investment program resides with the Treasurer who shall establish written procedures for the operation of the investment program, consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

## 1.4 Permitted Investments

- 1.4.1 All Authority funds which are not required for immediate cash expenditures shall be invested in interest bearing investments or accounts. Investments shall be made only in those instruments with a maximum maturity and as a maximum percentage of the Authority's investment portfolio as specifically authorized by California Government Code §§ 53600- 53608 and this Policy as summarized in Appendix B.
- 1.4.2 In order to reduce overall portfolio risk, investments shall be diversified among types of investments, maturities of those investments, and the institutions at which those investments are made.
- 1.4.3 The maturities of individual investments shall be diversified to meet the following objectives:
- A. No investment instrument shall be purchased which matures 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.
  - B. The average weighted maturity of all externally managed Authority investments shall not exceed three years (1095 days)
- 1.4.4 This Investment Policy specifically prohibits the investment of any funds subject to this Policy in derivatives. Derivatives include but are not limited to structured notes, inverse floating rate notes, securities with embedded options, collateralized mortgage obligations, asset backed securities, variable rate or floating rate securities

## 1.5

### **Selection of Financial Institutions, Investment Managers and Dealers**

1.5.1 To minimize the risk to the Authority's overall investment portfolio from the default by a single institution in which Authority funds are on deposit or invested:

- A. In selecting Financial Institutions, the credit worthiness, financial stability, credit characteristics, financial history, as well as the interest rates offered and cost of services provided shall be considered. No funds will be deposited in an institution unless that institution has been evaluated by an independent rating service, as satisfactory or better. Deposits of \$100,000 or less that are federally insured by the Federal Deposit Insurance Corporation may be excluded from this policy.

The Authority's main depository shall be selected at least every five years through the formal procurement process.

For funds availability/accessibility and service considerations, preference shall be given to depositories located within the geographic area in which the Authority operates.

- B. In selecting Investment Managers and Brokers, past performance, financial strength, reputation, area of expertise, willingness and ability to provide the highest investment return, at the lowest cost to the Authority, while conforming to the Authority's Investment Policy and California Government Code shall be considered. Additionally, investment managers must be registered with the Securities and Exchange Commission (SEC).
- B.1 Primary government securities dealers who report to the New York Federal Reserve are preferred for conducting transactions for all authorized securities other than negotiable certificates of deposit.
- B.2 The Treasurer shall seek opportunities to deposit Authority funds with minority owned and operated institutions, provided that those institutions have met the Authority's requirements for safety and reliability and provide terms which are competitive with other institutions.
- C. The Authority and its investment managers shall only purchase statutorily authorized investments from either an institution licensed by the State as a broker/dealer, a national or state chartered bank, a federal or state association, a brokerage firm designated as a primary government dealer by the Federal Reserve Bank, or a member of a federally regulated securities exchange.
- D. All Financial Institutions, Investment Managers and Broker/Dealers who do business with the authority shall sign a Certification of Understanding with the Authority. The Certification of Understanding states that the financial institution,

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investment manager or broker/dealer: (1) Has read and is familiar with the Authority's Investment Policy and Guidelines as well as Federal and State Law; (2) Meets the requirements as outlined under Section 1.1.4. of the Authority's Investment Policy ; (3) Agrees to make every reasonable effort to protect the assets of the Authority from loss; and (4) Agrees to notify the Authority in writing of any potential conflicts of interest. Failure to submit a Certification of Understanding shall result in the withdrawal of all funds held by that financial institution, investment manager, or broker/dealer and the rescission of any and all authority to act as an agent to purchase or invest funds for the Authority. Completed certifications shall be filed in the Treasurer's Office.

## **1.6**

### **Custody and Safekeeping of Securities and Authority Funds**

- 1.6.1 Securities and collateral for repurchase agreements shall be purchased in the name of the Authority and shall be physically delivered, either to the Authority or to a third party agent of the Authority. Delivery may be through the Federal Reserve System by book entry system or the system of a nationally recognized depository such as the Depository Trust Company. All investment transactions for the Authority require "delivery vs. payment" method of settlement only.
- 1.6.2 The Authority's securities and collateral for those securities shall be maintained in the name of the Authority in the Trust Department or safekeeping department of a bank as established by written third party safekeeping agreements between the Authority and the bank.
- 1.6.3 Any uninsured deposits in excess of \$100,000 and any securities owned by the Authority which are held in third party safekeeping banks shall be 102% collateralized with US Treasuries with maturities of 1 year or less or if the maturities are in excess of 1 year but no longer than 10 years, the collateral must be marked to market daily. The Authority shall obtain a first lien and security interest in all securities held as collateral.



## **1.7 Reports**

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- 1.7.1 The Treasurer is responsible for ensuring compliance with all applicable Local, State and Federal laws governing the reporting of investments made with public funds.
- 1.7.2 The Treasurer shall annually render to the Board a statement of investment policy.
- 1.7.3 The Treasurer shall render a monthly report to the Finance, Budget and Efficiency Committee. The report shall include a summary of internally and externally managed investments by Investment Manager including:
  - A. Portfolio Holdings by Type of Investment
  - B. Average Current Yield
  - C. Portfolio Benchmark
  - D. Total Interest Earned
  - E. Total Interest Received
  - F. Average Daily Investment Amount
  - G. Average Daily Investment Maturity
  - H. Average Par, Book and Market Value of Portfolio
  - I. Average Prior Month Par, Book and Market Value of Portfolio
  - J. Average Par, Book and Market Value YTD of Portfolio
- 1.7.4 Internal and external Investment Managers shall submit monthly reports to the Treasurer using a standard reporting format.
  - A. Internal and external Investment Managers shall mark portfolios to market on a monthly basis. Comparison between cost (or book value) and market value shall be reported to the Treasurer monthly.

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- B. Internal and External Investment Managers shall monitor the ratings of all investments in the Authority's investment portfolios on a continuous basis and in writing, report all downgrades to Treasurer within 24 hours of event. If a rating drops below "A", the investment manager shall also make written recommendation to the Treasurer as to whether the security should be held or sold.
  
- C. Internal and External Investment Managers shall report asset maturities in a standardized manner to facilitate monitoring the overall match between cash needs and investment cash flow.

## **2.1**

### **Portfolio Guidelines**

- 2.1.1 Portfolio guidelines are the operating procedures by which the Investment Policy approved by the Board is implemented. The Treasurer may impose additional guidelines within the parameters set by the Investment Policy. Investment Portfolio Guidelines shall apply both to internal and external investment managers.
- 2.1.2 Portfolio guidelines shall include a system of internal controls established by the Treasurer 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, and agents of the Authority.

## 2.2

### **Accounting Guidelines:**

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- 2.2.1 Transaction authority shall be separated from accounting and record keeping responsibilities.
- 2.2.2 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 and the Treasurer, and if not resolved promptly, reported to the Chief Financial Officer.
- 2.2.3 It is the Authority's policy to hold investments to maturity or until market value equals or exceeds cost. However, if the liquidity needs of the Authority require that investments be sold at a loss, or because of a down rating of credit quality, national or public policy issues, or to take advantage of market conditions which will result in gain on reinvestment of sale of proceeds, the security may be sold and the decline in value shall be recorded as a loss. Before any security is sold at a loss, such transaction shall be reported in writing to the Treasurer.
- 2.2.4 Transfers of funds between accounts registered in the Authority's name held in the same financial institution shall be made upon receipt by the financial institution of a written request from the Authority with the signature of one authorized employee. Transfers of funds between accounts registered in the Authority's name held in two or more financial institutions shall be made upon receipt by the financial institutions of a written request from the Authority with the signature of two authorized employees.
- 2.2.5 The Treasurer is responsible for the preparation of the Authority's cash flow model. The cash flow model shall be updated monthly based upon actual and projected cash requirements of the Authority.
- A. Annually, as of July 1, the Treasurer shall identify the maximum maturity for each fund type held by the investment managers for the following twelve months. The allocation of funds by maturity shall be based upon the cash flow requirements of the Authority as determined by the Treasurer. The Treasurer shall monitor actual to maximum maturities within the parameter of the law and this policy.
- 2.2.6 Original copies of negotiable certificates of deposit and written confirmations for all other investment transactions shall be held in a qualified safekeeping institution or delivered to the Authority.

## 2.3

### Purchasing Guidelines

- 2.3.1 Investments shall be purchased and sold through an informal documented competitive telephone bid/offer process. If a specific maturity date is required, offers will be requested from at least three financial institutions for instruments which meet the maturity requirement. If no specific maturity is required, a yield curve analysis will be conducted to determine which maturities produce the greatest yield prior to bids being requested. At least three bids shall be received for the sale of any security.
- A. Competitive bids shall be compared with daily quotes from Wall Street Journal and/or Bloomberg for comparable securities. It is the goal of the Authority to pay no more than the average price quoted in the Wall Street Journal for a similar security purchased on the same day.
  - B. Documentation from the Wall Street Journal will be filed with proof of competitive bid and proof of purchase of all securities.

## 2.4

### **Communications Guidelines:**

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- 2.4.1 External and Internal Investment Managers shall immediately inform the Treasurer and the Chief Financial Officer in writing of any major market condition changes and/or major portfolio changes. The Treasurer shall immediately inform the Board of any such changes.

## 2.5

### Benchmarks:

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2.5.1 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, the Treasurer shall determine and set forth in writing reasons why it is in the best interest of the Authority to replace the investment manager.

#### 2.5.2 Investment Benchmarks

Externally Managed Portfolios

Merrill Lynch 1-3 Government/  
Corporate index

Treasury Internally Managed

Six month Treasury Bill Portfolio plus 20  
basis points

MTA TREASURY HANDBOOK

Dear \_\_\_\_\_ :

**SUBJECT: Certification of Understanding**

The Los Angeles County Metropolitan Transportation Authority Investment Policy as approved by the Board of Directors requires that all Financial Institutions, Investment Managers and Broker/Dealers who do business with the Authority sign a Certification of Understanding acknowledging that:

1. You have read and are familiar with the Authority's Investment Policy and Guidelines as well as relevant Federal and State laws.
2. You meet the requirements of the Authority's Investment Policy as outlined under Section 1.5.1 of the Policy.
3. You agree to make every reasonable effort to protect the assets of the Authority from loss.
4. You agree to notify the Authority in writing of any potential conflicts of interest.

Failure to submit a Certification of Understanding shall result in the withdrawal by the Authority of all funds held by the financial institution, investment manager or broker/dealer and the immediate revocation of any rights to act as an agent of the Authority for the purchase of securities or investment of funds on behalf of the Authority.

Lastly, the Board of Directors is committed to the goals of the Community Reinvestment Act (CRA). As part of the certification process for financial institutions, it is requested that you remit evidence of your most recent CRA rating.

After reading and signing this Certification of Understanding, please return same in the enclosed self-addressed envelope.

Sincerely,

Joya DeFoor

Authorized Signature:

Company:

Date:

CRA Rating (Enclose evidence of same)



Appendix B

**SUMMARY OF STATE-AUTHORIZED INVESTMENT TYPES & RESTRICTIONS\***

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

| #  | TYPE OF INVESTMENT   | % OF PORTFOLIO AUTHORIZED | OTHER RESTRICTIONS   |
|----|--|---------------------------|--|
| 1. | Bonds Issued by the Authority.   | 100%                      | 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. |
| 2. | United States Treasury notes, bonds, bills or certificates of indebtedness or those for which the faith and credit of the United States are pledged for the payment of principal and interest. | 100%                      | Same as above  |
| 3. | Registered state warrants or treasury notes or bonds of the State of California.   | 25%                       | Such obligations must be rated A1, SP-1 or equivalent or better short term; or As/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%                       | Same as above  |

**SUMMARY OF STATE-AUTHORIZED INVESTMENT TYPES & RESTRICTIONS\***

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

| #  | TYPE OF INVESTMENT   | % OF PORTFOLIO AUTHORIZED   | OTHER RESTRICTIONS   |
|----|--|---|--|
| 5. | Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan 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.  | 25%   | Same as above  |
| 6. | Bill of exchanges or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System.  | 40%   | <b>Purchases of bankers acceptances</b> may not exceed 270 days maturity. No more than 30% of the portfolio may be invested in the bankers acceptances of any one commercial bank. |
| 7. | Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc., or Standard & Poor's Corporation. 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, as provided for by Moody's Investors Service, Inc. or Standard & Poor's Corporation. | 15% if weighted average maturity is 31 days or less<br><br>30% if weighted average maturity is greater than 31 days | Purchases of eligible commercial paper may not exceed 180 days maturity nor represent more than 10% of the outstanding paper of an issuing corporation.                            |

**SUMMARY OF STATE-AUTHORIZED INVESTMENT TYPES & RESTRICTIONS\***

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

| #  | TYPE OF INVESTMENT   | % OF PORTFOLIO AUTHORIZED | OTHER RESTRICTIONS   |
|----|--|---------------------------|--|
| 8. | Negotiable Certificates of deposits issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank. | 30%                       | 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. |

**SUMMARY OF STATE-AUTHORIZED INVESTMENT TYPES & RESTRICTIONS\***

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

| #  | TYPE OF INVESTMENT  | % OF PORTFOLIO AUTHORIZED   | OTHER RESTRICTIONS  |
|----|---|---|---|
| 9. | <p>Investments in repurchase agreements or reverse repurchase agreements. The repurchase agreement shall be a written agreement in the form of the current Public Securities Association agreement.</p> <p>Repurchase agreements shall be collateralized at all times. Collateral shall be limited to obligations of the United States and Federal Agencies with an initial margin of at least 101% for overnight and 102% for term repurchase agreements. Collateral shall be delivered to a third party custodian in all cases. Collateral for term repurchase agreements shall be valued daily by the Authority's investment officer (for internal funds) or external investment manager. The Authority shall obtain a first lien and security interest in all collateral.</p> <p>As required under California Government Code 53601, investments in reverse repurchase agreements shall be made only upon prior written approval of the Treasurer.</p> <p>No reverse repurchase agreements shall be entered into unless :</p> <ol style="list-style-type: none"> <li>1. The maturity of investments purchased with proceeds of the reverse matches the maturity of the reverse; and</li> <li>2. The counterparty risk of the reverse is minimized by either investing the proceeds with the same counterparty or investing them in an investment with a credit rating in the highest short-term rating category.</li> </ol> | <p>For repurchase agreements:<br/>25% with a maximum maturity less than 365 days</p> <p>Repurchase agreements in excess of one year require the written approval of the Treasurer and minimum credit rating requirements of "AA" for the counterparty.</p> <p>For reverse repos:<br/>15% of discretionary funds</p> | <p>Investment in reverse repurchase agreements require prior written of the Treasurer.</p> <p>See CA Government Code Section 53601, (i)</p> |

**SUMMARY OF STATE-AUTHORIZED INVESTMENT TYPES & RESTRICTIONS\***

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

| #   | TYPE OF INVESTMENT   | % OF PORTFOLIO AUTHORIZED | OTHER RESTRICTIONS   |
|-----|--|---------------------------|--|
| 10. | Medium-term notes issued by corporations organized and operating within the United States, or by any state within the United States. | 15%                       | Maximum five (5) year maturity. Notes must be rated "A" or its equivalent or better by a nationally recognized rating service. |

**SUMMARY OF STATE-AUTHORIZED INVESTMENT TYPES & RESTRICTIONS\***

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

| #   | TYPE OF INVESTMENT  | % OF PORTFOLIO AUTHORIZED | OTHER RESTRICTIONS   |
|-----|---|---------------------------|--|
| 11. | Shares of beneficial interest issued by diversified management companies investing in the securities and obligations as authorized, by California State Code 53601. | 15%                       | Companies must have either 1) the highest ranking or the highest letter and numerical rating provided by not less than two of the largest nationally recognized rating services, or (2) have an investment advisor registered with the Securities and Exchange Commission with no less than five years experience investing in the securities and obligations authorized by State Code §53601 and have assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price may not include any commissions charged by these companies. |

**SUMMARY OF STATE-AUTHORIZED INVESTMENT TYPES & RESTRICTIONS\***

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

| #   | TYPE OF INVESTMENT  | % OF PORTFOLIO AUTHORIZED | OTHER RESTRICTIONS                      |
|-----|---|---------------------------|---|
| 12. | State of California Local Agency Investment fund (LAIF), or other Local Government Investment Pools (LGIP) established by public California entities. |                           | \$15,000,000 maximum investment amount. |
|     |   |                           |   |