ID #	BRD-029
Rev	06
Date	05/09/2024

Investment Policy

(For Restricted and Unrestricted Funds)

1.0 PURPOSE

The investment policies of the Santa Clara Valley Open Space Authority (Authority) shall be based on state law and best practices. All funds shall be invested in accordance with this Investment Policy and California Government Code (Government Code) sections related to the investment of public funds. In the event of any conflict between the terms of this Policy and the Government Code, the provisions of the Government Code shall prevail.

It is intended that this policy cover all funds and investment activities under the direction of the Authority.

2.0 REVISION HISTORY

Date	Revision	Modification
10/25/2007	N/A	New policy, Reaffirmed on 11/8/2007
4/28/2011	01	Update and Approved
9/26/2013	02	Update and Approved
9/24/2020	03	Update and Approved
10/22/2020	04	Update and Approved
03/09/2023	05	Update and Approved
05/09/2024	06	Update and Approved

3.0 PERSONS AFFECTED/RESPONSIBLE

- Board of Directors
- Board Appointed Treasurer

4.0 POLICY

FIDUCIARY STANDARD

Pursuant to California Government Code, Section 53600.3, each authorized governing body and persons authorized to make investment decisions on behalf of the Authority is a trustee and therefore a fiduciary subject to the "prudent investor" standard, as follows:

> When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, trustees shall act with the 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 agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

The Treasurer and other authorized persons responsible for managing Authority funds acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes provided that the Treasurer or other authorized persons acted in good faith. Deviations from expectations of a security's credit or market risk should be reported to the governing body in a timely fashion and appropriate action should be taken to control adverse developments.

OBJECTIVES

Investment objectives in order of consideration are as follows:

Capital Preservation Safety of principal is the foremost objective of the Authority investment program. The Authority's investment activities will be undertaken in a manner that seeks to ensure portfolio preservation of capital.

Liquidity The Authority's investment portfolio shall remain sufficiently liquid to enable Authority to meet all reasonably anticipated cash flow requirements.

Return on Investment The Authority's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the Authority's investment risk constraints and the cash flow characteristics of the portfolio.

INVESTMENTS GUIDELINES

Delegation of authority to manage the agency's investment program is derived from California Government Code, Sections 41006 and 53600 et seq. The Board may appoint any person as a Treasurer and delegate to this person the authority to invest or to reinvest funds, or to sell or exchange securities so purchased. However, such authority is limited to the types of instruments pre-approved by the Board. Such appointment and delegation of authority shall be granted for a maximum period of one year. The Treasurer shall assume full responsibility for those transactions until the delegation of authority is revoked or expires. The Board may renew the delegation of authority each year and such authority may be revoked at any time. If the Board does not appoint or reappoint a Treasurer, no investment decisions or transactions of any kind may be made without Board approval.

The Authority may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the Authority's investment portfolio in a manner consistent with the Authority's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

The Authority's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Authority recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of the overall portfolio's return and the cash flow requirements of the Authority, and consistent with authorized investments under Government Code section 53601.

A person appointed as a Treasurer shall prepare a cash flow projection prior to all investment decisions. This cash flow projection will be reviewed and evaluated by the General Manager. The Board is responsible for approving the Treasurer's designation of the amount of funds designated as operating cash, reserves, and those not required for operating cash or reserves.

<u>OPERATING CASH</u> All Authority funds necessary for operating cash shall be maintained in an account with the Authority's primary banking institution.

<u>RESERVES</u> The Authority maintains reserve funds: 1) an operating reserve of at least 24 months of budgeted operating expenses; 2) the principal and accrued interest on amounts subject to litigation; 3) amounts to cover accrued liabilities segregated under the 20% Funding programs; and, 4) other reserve funds as approved by the Board. All reserve funds, including any newly established reserves not named in this section, shall be maintained with the Santa Clara County Pooled Investment Fund, the Local Agency Investment Fund (LAIF) and or any other investment permitted under this policy.

<u>IDLE FUNDS</u> Idle Authority funds, defined as those funds not otherwise invested as permitted by this Policy and in excess of reserves or operating cash, will be invested in the Santa Clara County Pooled Investment Fund and or LAIF until designated for other investment in accordance with this Policy.

<u>ENDOWMENTS AND GRANTS</u> Endowment and grant funds, not otherwise invested, will be invested in an interest bearing account with the Authority's primary banking institution. Such funds may be invested to maximize earnings within parameters otherwise stated in this Policy and the endowment or grant.

<u>ETHICS AND CONFLICTS OF INTEREST</u>

All participants in the investment process shall act as custodians of the public trust and shall recognize that the investment portfolio is subject to public review and evaluation.

Treasurer and investment managers shall comply with the Conflict of Interest Code adopted by the Board of Directors.

SELECTION OF INVESTMENTS

The Board, or its duly appointed Treasurer, is responsible for selecting investments, and investment manager(s), banking institutions and brokerage services. Selection of investments must comply with this Policy and all applicable sections of the Government Code, and all selections by a duly appointed Treasurer must be done in consultation with the General Manager. In all cases the Government Code will take precedence over all other governing investment documents except where and when this Policy provides for limitations more restrictive than those permitted under the Government Code.

SOCIAL AND ENVIRONMENTAL CONCERNS

In the event all general objectives mandated by state law and set forth above are met, investments in corporate securities and depository institutions will be evaluated for social and environmental concerns. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability, religion, or sexual orientation, as well as those entities with environmentally sound practices. Investments are discouraged in entities that receive a significant portion of their revenues from the manufacture of tobacco products, exploration of fossil fuels, firearms, or weapons not used in our national defense.

INTERNAL CONTROL

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

The Board, or its duly appointed Treasurer, will annually review this investment policy and make recommendations for updating the policy as necessary. The Treasurer shall also establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures. This audit will be presented to the Board for acceptance on an annual basis.

AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

To the extent practicable, the Treasurer shall endeavor to complete investment transactions using a competitive bid process whenever possible. The Board, or its duly appointed Treasurer will determine which financial institutions are authorized to provide investment services to the Authority. It shall be the Authority's policy to purchase securities only from authorized institutions and firms.

The Treasurer shall maintain procedures for establishing a list of authorized broker-dealers and financial institutions which are approved for investment purposes that are selected through a process of due diligence as determined by the Authority. Due diligence shall determine whether such authorized broker-dealers, and the individuals rendering investment services to the

Authority are reputable and trustworthy, knowledgeable and experienced in Public Agency investing and able to meet all of their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

In accordance with Section 53601.5, institutions eligible to transact investment business with the Authority include:

- Institutions licensed by the state as a broker-dealer as defined in Section 25004 of the Corporations Code with proof of Financial Industry Regulatory Authority (“FINRA”) certification.
- Institutions that are members of a federally regulated securities exchange.
- Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
- Nationally or state-chartered banks.
- Savings association or federal association (as defined in Section 5102 of the Financial Code).
- The Federal Reserve Bank.
- Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker-dealers authorized to engage in transactions will be at the sole discretion of the Authority, except where the Authority utilizes an external investment adviser in which case the Authority may rely on the adviser for selection.

All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the Treasurer with audited financials and a statement certifying that the institution has reviewed the California Government Code, Section 53600 et seq. and the Authority’s investment policy. The Treasurer will conduct an annual review of the financial condition and registrations of such qualified bidders.

Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

Selection of broker-dealers used by an external investment adviser retained by the Authority will be at the sole discretion of the adviser. Where possible, transactions with broker-dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

REPORTING BY AN APPOINTED TREASURER

Any person appointed Treasurer shall report monthly security transactions, if any, to the Board in a quarterly investment report within 45 days of the quarter end. The Treasurer shall also provide the Board with quarterly investment reports which provide a clear picture of the status of the current investment portfolio. The quarterly investment reports may include comments on the fixed income markets, any restrictions on the percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategy and/or any other relevant investment information. Schedules in the quarterly reports may include, but are not limited to, the following:

1. A listing of individual securities held at the end of the reporting period by authorized investment category.
2. Average life and final maturity of all investments listed.
3. Coupon, discount or earnings rate.
4. Percentage of the Portfolio represented by each investment category.

AUTHORIZED INVESTMENTS

The Authority's investments are governed by California Government Code, Sections 53600 et seq. Within the investments permitted by the Code, the Authority seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. Percentage holding limits and minimum credit requirements listed in this section apply at the time the security is purchased.

Any investment currently held at the time the policy is adopted which does not meet the new policy guidelines can be held until maturity and shall be exempt from the current policy. At the time of the investment's maturity or liquidation, such funds shall be reinvested only as provided in the current policy.

An appropriate risk level shall be maintained by primarily purchasing securities that are of high quality, liquid, and marketable. The portfolio shall be diversified by security type and issuer to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers.

1. MUNICIPAL SECURITIES include obligations of the Authority, the State of California and any local agency within the State of California, provided that:

    - The securities are rated in a rating category of "A" or its equivalent or better by at least one nationally recognized statistical rating organization ("NRSRO").
    - No more than 5% of the total portfolio may be invested in any single issuer.
    - No more than 30% of the total portfolio may be in Municipal Securities.
    - The maximum maturity does not exceed five (5) years.

2. MUNICIPAL SECURITIES (REGISTERED TREASURY NOTES OR BONDS) of any of the other 49 states in addition to 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.

    - The securities are rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
    - No more than 5% of the total portfolio may be invested in any single issuer.

- No more than 30% of the total portfolio may be in Municipal Securities.
- The maximum maturity does not exceed five (5) years.

3. U.S. TREASURIES and other government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest. There are no limits on the dollar amount or percentage that the Authority may invest in U.S. Treasuries, provided that:

   - The maximum maturity is five (5) years.

4. FEDERAL AGENCIES or United States Government-Sponsored Enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There are no limits on the dollar amount or percentage that the Authority may invest in Federal Agency or Government-Sponsored Enterprises (GSEs), provided that:

   - No more than 25% of the total portfolio may be invested in any single Agency/GSE issuer.
   - The maximum maturity does not exceed five (5) years.
   - No more than 20% of the total portfolio may be invested in callable agency securities.

5. BANKER'S ACCEPTANCES, provided that:

   - They are issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term debt obligations which are rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
   - No more than 40% of the total portfolio may be invested in Banker's Acceptances.
   - No more than 5% of the total portfolio may be invested in any single issuer.
   - The maximum maturity does not exceed 180 days.

6. COMMERCIAL PAPER, provided that the securities issued by an entity that meets all of the following conditions in either paragraph (a) or (b) and other requirements specified below:

   a. Securities issued by corporations:
      - a corporation organized and operating in the United States with assets in excess of $500 million.
      - The securities are rated "A-1" or its equivalent or better by at least one NRSRO.
      - If the issuer has other debt obligations, they must be rated in a rating category of "A" or its equivalent or better by at least one NRSRO.

   b. Securities issued by other entities:
      - The issuer is organized within the United Staes as a special purpose corporation, trust, or limited liability company.
      - The securities must have program-wide credit enhancements including, but no limited to, overcollateralization, letters of credit, or surety bond.
      - The securities are rated "A-1" or its equivalent or better by at least one NRSRO.

- Authority may purchase no more than 10% of the outstanding commercial paper of any single issuer.
- No more than 25% of the total portfolio may be invested in Commercial Paper.
- No more than 5% of the total portfolio may be invested in any single issuer.
- The maximum maturity does not exceed 270 days.

7. NEGOTIABLE CERTIFICATES OF DEPOSIT (NCDS), issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank, provided that:

   - The amount of the NCD insured up to the FDIC limit does not require any credit ratings.
   - Any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
   - No more than 30% of the total portfolio may be invested in NCDs (combined with CDARS).
   - No more than 5% of the total portfolio may be invested in any single issuer.
   - The maximum maturity does not exceed five (5) years.

8. FEDERALLY INSURED TIME DEPOSITS (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions, provided that:

   - The amount per institution is limited to the maximum covered under federal insurance.
   - No more than 20% of the total portfolio will be invested in a combination of federally insured and collateralized time deposits.
   - The maximum maturity does not exceed five (5) years.

9. COLLATERALIZED TIME DEPOSITS (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with securities in accordance with California law, provided that:

   - No more than 20% of the total portfolio will be invested in a combination of federally insured and collateralized time deposits.
   - The maximum maturity does not exceed five (5) years.

10. PLACEMENT SERVICE DEPOSITS, provided that:

    - No more than 30% of the total portfolio may be invested in a combination of Certificates of Deposit, including CDARS.
    - The maximum maturity does not exceed five (5) years.

11. COLLATERALIZED BANK DEPOSITS. Authority's deposits with financial institutions will be

collateralized with pledged securities per California Government Code, Section 53651. There are no limits on the dollar amount or percentage that the Authority may invest in collateralized bank deposits.

12. REPURCHASE AGREEMENTS collateralized with securities authorized under California Government Code, maintained at a level of at least 102% of the market value of the Repurchase Agreement. There are no limits on the dollar amount or percentage that the Authority may invest, provided that:

    - Securities used as collateral for Repurchase Agreements will be delivered to an acceptable third party custodian.
    - Repurchase Agreements are subject to a Master Repurchase Agreement between the Authority and the provider of the repurchase agreement. The Master Repurchase Agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA).
    - The maximum maturity does not exceed one (1) year.

13. STATE OF CALIFORNIA LOCAL AGENCY INVESTMENT FUND (LAIF), provided that:

    - The Authority may invest up to the maximum amount permitted by LAIF.
    - LAIF’s investments in instruments prohibited by or not specified in the Authority’s policy do not exclude the investment in LAIF itself from the Authority’s list of allowable investments, provided LAIF’s reports allow the Treasurer to adequately judge the risk inherent in LAIF’s portfolio.

14. LOCAL GOVERNMENT INVESTMENT POOLS

    - Other LGIPs permitted by client.
    - There is no issuer limitation for Local Government Investment Pools

15. CORPORATE MEDIUM TERM NOTES (MTNS), provided that:

    - The issuer is a corporation organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.
    - The securities are rated in a rating category of “A” or its equivalent or better by at least one NRSRO.
    - No more than 30% of the total portfolio may be invested in MTNs.
    - No more than 5% of the total portfolio may be invested in any single issuer.
    - The maximum maturity does not exceed five (5) years.

16. ASSET-BACKED, MORTGAGE-BACKED, MORTGAGE PASS-THROUGH SECURITIES, AND COLLATERALIZED MORTGAGE OBLIGATIONS FROM ISSUERS NOT DEFINED IN SECTIONS 3 AND 4 OF THE AUTHORIZED INVESTMENTS SECTION OF THIS POLICY, provided that:

    - The securities are rated in a rating category of “AA” or its equivalent or better by a NRSRO.

- No more than 20% of the total portfolio may be invested in these securities.
- No more than 5% of the total portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer.
- The maximum maturity does not exceed five (5) years.

17. MUTUAL FUNDS AND MONEY MARKET MUTUAL FUNDS that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that:

    a. MUTUAL FUNDS that invest in the securities and obligations as authorized under California Government Code, Section 53601 (a) to (k) and (m) to (q) inclusive and that meet either of the following criteria:

        (i) Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or

        (ii) Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California Government Code, Section 53601 and with assets under management in excess of $500 million.

- No more than 10% of the total portfolio may be invested in shares of any one mutual fund.

    b. MONEY MARKET MUTUAL FUNDS registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:

        (i) Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or

        (ii) Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500 million.

- No more than 20% of the total portfolio may be invested in the shares of any one Money Market Mutual Fund.

    c. No more than 20% of the total portfolio may be invested in these securities.

18. SUPRANATIONALS, provided that:

- Issues are US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American

Development Bank.
- The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.
- No more than 30% of the total portfolio may be invested in these securities.
- No more than 10% of the total portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

PROHIBITED INVESTMENT VEHICLES AND PRACTICES

The Authority's investments are governed by California Government Code, Sections 53600 et seq. Within the investments permitted by the Code, the Authority seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. Percentage holding limits listed in this section apply at the time the security is purchased.

- State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.
- In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
- Investment in any security that could result in a zero interest accrual if held to maturity is prohibited.
- Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
- Purchasing or selling securities on margin is prohibited.
- The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.
- The purchase of foreign currency denominated securities is prohibited.
- The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is prohibited.

INVESTMENT POOLS/MUTUAL FUNDS

The Authority shall conduct a thorough investigation of any pool or mutual fund prior to making an investment, and on a continual basis thereafter. Annually, the Treasurer shall seek responses to the following questions from any investment pool or mutual fund in which the Authority:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?

- A fee schedule, and when and how it is assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

COLLATERALIZATION

CERTIFICATES OF DEPOSIT (CDS). The Authority shall require any commercial bank or savings and loan association to deposit eligible securities with an agency of a depository approved by the State Banking Department to secure any uninsured portion of a Non-Negotiable Certificate of Deposit. The value of eligible securities as defined pursuant to California Government Code, Section 53651, pledged against a Certificate of Deposit shall be equal to 150% of the face value of the CD if the securities are classified as mortgages and 110% of the face value of the CD for all other classes of security.

COLLATERALIZATION OF BANK DEPOSITS. This is the process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing repayment of deposited funds. The Authority shall require any bank or financial institution to comply with the collateralization criteria defined in California Government Code, Section 53651.

REPURCHASE AGREEMENTS. The Authority requires that Repurchase Agreements be collateralized only by securities authorized in accordance with California Government Code:

- The securities which collateralize the repurchase agreement shall be priced at Market Value, including any Accrued Interest plus a margin. The Market Value of the securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities.
- Financial institutions shall mark the value of the collateral to market at least monthly and increase or decrease the collateral to satisfy the ratio requirement described above.
- The Authority shall receive monthly statements of collateral.

DELIVERY, SAFEKEEPING, AND CUSTODY

DELIVERY-VERSUS-PAYMENT (DVP). All investment transactions shall be conducted on a delivery-versus-payment basis.

SAFEKEEPING AND CUSTODY. To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all cash and securities in the Authority’s portfolio shall be held in safekeeping in the Authority’s name by a third party custodian, acting as agent for the Authority under the terms of a custody agreement executed by the bank and the Authority. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by the Authority from the custodian listing all securities held in safekeeping with current market data and other information.

The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) money mutual funds, since the purchased securities are not deliverable.

MAXIMUM MATURITY

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities.

The Authority will not invest in securities maturing more than five (5) years from the date of trade settlement, unless the Board has by resolution granted authority to make such an investment.

RISK MANAGEMENT AND DIVERSIFICATION

MITIGATING CREDIT RISK IN THE PORTFOLIO

Credit risk is the risk that a security or a portfolio will lose some or all its value due to a real or perceived change in the ability of the issuer to repay its debt. The Authority will mitigate credit risk by adopting the following strategies:

- The diversification requirements included in the "Authorized Investments" section of this policy are designed to mitigate credit risk in the portfolio.

- No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.

- The Authority may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or Authority's risk preferences.

- If the credit ratings of any security owned by the Authority are downgraded to a level below the quality required by this investment policy, it will be the Authority's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

  - If a security is downgraded, the Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.

  - If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the Board.

MITIGATING MARKET RISK IN THE PORTFOLIO

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The Authority recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The Authority will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The Authority further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The Authority, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The Authority will maintain a minimum of six months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements.
- The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.
- The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the Authority based on the Authority's investment objectives, constraints and risk tolerances.

REVIEW OF INVESTMENT PORTFOLIO

The Treasurer shall periodically, but no less than quarterly, review the portfolio to identify investments that do not comply with this investment policy and establish protocols for reporting major and critical incidences of noncompliance to the Board.

PERFORMANCE EVALUATION

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the Authority's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments.

The Treasurer shall monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s), which will be included in the Treasurer's quarterly report. The Treasurer shall select an appropriate, readily available index to use as a market benchmark. Benchmarks may change over time based on changes in market conditions or cash flow requirements.

GLOSSARY OF INVESTMENT TERMS

AGENCIES. Shorthand market terminology for any obligation issued by a government-sponsored entity (GSE), or a federally related institution. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called "FreddieMac" issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "FannieMae," issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as "GinnieMae," issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER'S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from their own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline, the issuer will likely call its current securities and reissue them at a lower rate of interest.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. Intrafi is an entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED BANK DEPOSIT. A bank deposit that is collateralized at least 100% (principal plus interest to maturity). The deposit is collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

COLLATERALIZED TIME DEPOSIT. Time deposits that are collateralized at least 100% (principal plus interest to maturity). These instruments are collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for their own position.

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a security to changes interest rates.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC). The Federal Deposit Insurance Corporation (FDIC) is an independent federal agency insuring deposits in U.S. banks and thrifts in the event of bank failures. The FDIC was created in 1933 to maintain public confidence and encourage stability in the financial system through the promotion of sound banking practices.

FEDERALLY INSURED TIME DEPOSIT. A time deposit is an interest-bearing bank deposit account that has a specified date of maturity, such as a certificate of deposit (CD). These deposits are limited to funds insured in accordance with FDIC insurance deposit limits.

FIDUCIARY. A person or organization that acts on behalf of another person(s) or organization that puts their clients' interest ahead of their own as they are bound both legally and ethically to act in the other's best interests.

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL AGENCY INVESTMENT FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MATURITY. The final date upon which the principal of a security becomes due and payable. The investment's term or remaining maturity is measured from the settlement date to final maturity.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100-basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MONEY MARKET MUTUAL FUND. A mutual fund that invests exclusively in short-term securities. Examples of investments in money market funds are certificates of deposit and U.S. Treasury securities. Money market funds attempt to keep their net asset values at $1 per share.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO). A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CERTIFICATE OF DEPOSIT (CD). A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market.

PAYDOWN. A reduction in the principal amount owed on a bond, loan, or other debt.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT INVESTOR (PRUDENT PERSON) RULE. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and 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 like character and with like aims to accomplish similar purposes."

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

SECURITIES AND EXCHANGE COMMISSION (SEC). The U.S. Securities and Exchange Commission

(SEC) is an independent federal government agency responsible for protecting investors, maintaining fair and orderly functioning of securities markets and facilitating capital formation. It was created by Congress in 1934 as the first federal regulator of securities markets. The SEC promotes full public disclosure, protects investors against fraudulent and manipulative practices in the market, and monitors corporate takeover actions in the United States.

SECURITIES AND EXCHANGE COMMISSION (SEC) RULE 15C3-1. An SEC rule setting capital requirements for brokers and dealers. Under Rule 15c3-1, a broker or dealer must have sufficient liquidity in order to cover the most pressing obligations. This is defined as having a certain amount of liquidity as a percentage of the broker/dealer's total obligations. If the percentage falls below a certain point, the broker or dealer may not be allowed to take on new clients and may have restrictions placed on dealings with current client.

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

TOTAL RATE OF RETURN. A measure of a portfolio’s performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues “cash management” bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.