



INVESTMENT POLICY

I. Introduction

The purpose of this document is to identify policies and procedures that enhance opportunities for a prudent and systematic investment program and to organize and formalize investment-related activities.

II. Scope

It is intended that this Policy cover all funds (except retirement funds) and investment activities under the direction of the Commission.

III. Delegation of Authority

Pursuant to the Commission's Administrative Code, the Board's management responsibility for the investment program is hereby delegated for a one-year period to the Executive Director who shall monitor and review all investments for consistency with this investment policy. Subject to review, the Board may renew the delegation of authority pursuant to this section each year. The Executive Director may delegate these duties to his designee ("Chief Financial Officer"). The Commission may delegate its investment decision making and execution authority to an investment advisor. The advisor shall follow this Policy and such other written instructions as are provided.

IV. Prudence

All persons authorized to make investment decisions on behalf of the Commission are subject to the prudent investor standard. Investments shall be made with care, skill, prudence and diligence under circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Commission 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 Commission.

Authorized individuals acting in accordance with this Policy and written 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 a timely fashion.

V. Objective

The Commission's primary investment objectives, in priority order, shall be:

1. **Safety.** Safety of principal is the foremost objective of the investment program. Investments of the Commission shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.
2. **Liquidity.** The investment portfolio of the Commission will remain sufficiently liquid to enable the Commission to meet its cash flow requirements.
3. **Return on Investment.** The investment portfolio of the Commission shall be designed with the objective of maximizing return on its investments, but only after ensuring safety and liquidity.

In order to maximize return on its investments, the Commission seeks an active rather than passive management of portfolio assets. The Commission may from time to time sell securities that it owns in order to better reposition its portfolio assets in accordance with updated cash flow schedules, yield curve optimizations, yield opportunities existing between market sectors, or simply market timing.

VI. Investments

California Government Code Section 53601 governs the investments permitted for purchase by the Commission. Within the investments permitted by Code, the Commission seeks to further restrict eligible investments to the investments listed in Section VI.1 below. Percentage limitations, where indicated, apply *at the time of purchase*. Percentage holdings with any one non-governmental issuer are further restricted to a maximum of 10%. Rating requirements where indicated, apply *at the time of purchase*. In the event a security held by the Commission is subject to a rating change that brings it below the minimum specified rating requirement, the Chief Financial Officer shall notify the Board of the change. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the rate drop, prognosis for recovery or further rate drops, and the market price of the security.

1. Eligible Investments

- A. **U.S. Government Issues.** 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.

- B. Federal Agency Securities.** Federal agency 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.
- C. Repurchase Agreements.** Repurchase agreements are to be used solely as short-term investments not to exceed 30 days. The Commission may enter into repurchase agreements with primary government securities dealers rated “A” or better by two nationally recognized rating services. Counterparties should also have (i) a short-term credit rating of at least A-1/P-1; (ii) minimum assets and capital size of \$25 billion in assets and \$350 million in capital; (iii) five years of acceptable audited financial results; and (iv) a strong reputation among market participants.

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities, as described in V.1 A and B, will be acceptable collateral. All securities underlying repurchase agreements must be delivered to the Commission's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each repurchase agreement must equal or exceed 102 percent of the total dollar value of the money invested by the Commission for the term of the investment. For any repurchase agreement with a term of more than one day, the value of the underlying securities must be reviewed on an on-going basis according to market conditions. Market value must be calculated each time there is a substitution of collateral.

The Commission or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to repurchase agreement. The Commission shall have properly executed a PSA agreement with each counterparty with which it enters into repurchase agreements.

- D. U.S. Corporate Debt.** Medium-term notes, defined as all corporate and depository institution securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or depository institutions licensed by the United States or any state and operating within the United States. Eligible investment shall be rated “AA” or better by one or more nationally recognized rating service. Investments in U.S. Corporate Debt are further limited to 30% of surplus funds.

E. Commercial Paper. Commercial paper rated in the highest category by one or more nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

- (1) The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation. (B) Has total assets in excess of five hundred million dollars (\$500,000,000). (C) Has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.
- (2) The entity meets the following criteria: (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (B) Has program-wide credit enhancements, including, but not limited to, over collateralization, letters of credit, or surety bond. (C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation. Investments in commercial paper are limited to a maximum of 25% of surplus funds.

F. Banker's Acceptances. Banker's acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System. Purchases of banker's acceptances may not exceed 180 days maturity. Eligible banker's acceptances are restricted to issuing financial institutions with short-term paper rated in the highest category by one or more nationally recognized rating service. Investments in banker's acceptances are further limited to 40% of surplus funds with no more than 30% of surplus invested in the banker's acceptances of any one commercial bank.

G. Money Market Mutual Funds. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.) and that invest solely in U.S. treasuries, obligations of the U.S. Treasury, and repurchase agreements relating to such treasury obligations.

The Commission may invest in shares of beneficial interest issued by a company shall have met either of the following criteria: (1) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized rating

services. (2) 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 five hundred million dollars (\$500,000,000).

The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that the companies may charge. Investments in Money Market Mutual Funds are further limited to 20% of surplus funds.

H. Riverside County Pooled Investment Fund ("RCPIF"). The Commission may invest in the Riverside County Pooled Investment Fund. As on-going due diligence, the Chief Financial Officer shall obtain the information listed below:

- A description of eligible investment securities and a written statement of investment policy.
- A description of the interest calculation, the frequency of interest distributions, and the treatment of gains and losses in the portfolio.
- A description of how often the securities are priced, how the securities are safeguarded, and the audit arrangements.
- A description of who may invest in the program, how often they may invest, and what size deposits and withdrawals are allowed.
- A schedule for receiving statements and portfolio listings.
- A fee schedule, and when and how fees are assessed.
- The composition of the investment fund for each reporting period.

I. State of California Local Agency Investment Fund ("LAIF"). The Commission may invest in LAIF. As on-going due diligence, the Chief Financial Officer shall obtain the information listed below:

- A description of eligible investment securities and a written statement of investment policy.
- A description of the interest calculation, the frequency of interest distributions, and the treatment of gains and losses in the portfolio.
- A description of how often the securities are priced, how the securities are safeguarded, and the audit arrangements.

- A description of who may invest in the program, how often they may invest, and what size deposits and withdrawals are allowed.
- A schedule for receiving statements and portfolio listings.
- A fee schedule, and when and how fees are assessed.
- The composition of the investment fund for each reporting period.

J. Certificates of Deposit. Federal Deposit Insurance Corporation (FDIC) insured or fully collateralized time certificates of deposit in financial institutions located in California. Eligible investments are restricted to those issuing institutions that have been in business at least five years and whose senior debt obligations are rated “AA” or better by one or more nationally recognized rating service. The maximum term for deposits shall be one year. Investments in certificates of deposit are further limited to 20% of surplus funds. All time deposits must be collateralized in accordance with California Government Code section 53561. The Commission, at its discretion, may waive the collateralization requirements for any portion of the deposit that is covered by federal insurance.

2. Eligible Investments for Bond Proceeds

Bond proceeds shall be invested in securities permitted by the applicable bond documents. If the bond documents are silent as to permitted investments, bond proceeds will be invested in securities permitted by this Policy.

With respect to maximum maturities, the Policy authorizes investing bond reserve fund proceeds beyond the five years if prudent in the opinion of the Chief Financial Officer.

3. Ineligible Investments

As provided in California Government Code Section 53601.6, the Commission shall not invest any funds in inverse floaters, range notes, mortgage derived interest-only strips or in any security that could result in zero interest accrual if held to maturity.

The purchase of any security not listed in Section VI.1 above, but permitted by the California Government Code, is prohibited unless the Board approves the investment either specifically or as a part of an investment program approved by the Board.

VII. Maximum Maturities

Maturities of investments will be selected to provide necessary liquidity, minimize interest rate risk, and maximize earnings. Current and expected yield curve analysis will be monitored and the portfolio will be invested accordingly. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds.

Where this Policy does not specify a maximum remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the Board has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board no less than three months prior to the investment.

VIII. Performance Standards

The Chief Financial Officer shall continually monitor and evaluate the portfolio's performance. A comparison of the portfolio's performance against a performance benchmark shall be included in the Chief Financial Officer's quarterly report. The Chief Financial Officer shall select an appropriate, readily available market index to use as a performance benchmark.

IX. Reporting

The Chief Financial Officer shall prepare and provide to the Board and the Executive Director, within 30 days following the end of the quarter, a portfolio report, which includes the following information:

- Type of investment
- Name of issuer
- Date of maturity
- Date of purchase
- Par value
- Original purchase cost
- Call date (if applicable)
- Current market value of securities
- Unrealized market value gain/loss
- Coupon rate, if applicable
- Yield to maturity
- Credit quality, as determined by one or more nationally recognized credit rating services, of each investment
- Average duration of portfolio
- Listing of all investment transactions during the quarter

- A statement that the portfolio complies with the investment policy, or the manner in which the portfolio is not in compliance
- A statement denoting the ability of the Commission to meet its liquidity requirements for the next six months, or provide an explanation as to why sufficient money shall, or may not be, available.

X. Investment Procedures

The Chief Financial Officer, as the Board's designee, is responsible for ensuring compliance with the Commission's investment policies and establishing written procedures and internal controls for the operation of the investment program. No person may engage in investment transactions except as provided under the terms of this Policy and the written procedures established by the Chief Financial Officer. The written procedures should address: delegation of authority to subordinate staff members, control of collusion, separation of transaction authority from accounting and record keeping, written confirmations of transactions, reconciliation of custody statements, and wire transfer procedures and agreements. An independent analysis by an external auditor shall be conducted annually to review internal control, account activity, and compliance with policies and procedures.

XI. Authorized Broker Dealers and Financial Institutions

The Chief Financial Officer shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment purposes. It shall be the Commission's policy to purchase securities only from those authorized institutions and firms. Separate lists shall be maintained for broker/dealers and financial institutions approved for repurchase agreements and those approved for the purchase of other securities. If an investment advisor is used, they may use their own list of approved broker/dealers and financial institutions for investment purposes.

To be eligible, a firm must meet the following minimum criteria: (i) an institution licensed by the state as a broker-dealer, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a federal or state association or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank; and (ii) all broker/dealer firms and individuals must be properly registered with the NASD and/or SEC to transact business in the relevant geographic locations and product sectors. In addition, counterparties for Repurchase Agreements shall be limited to primary government securities dealers rated "A" or better by two nationally recognized rating services. Counterparties shall also have (i) a short-term credit rating of at least A-1/P-1; (ii) minimum assets and capital size of \$25 billion in assets and \$350 million in capital; (iii) five years of acceptable audited financial results; and (iv) a strong reputation among market participants.

The Chief Financial Officer shall select broker/dealers and other financial institutions on the basis of the firm's expertise and credit worthiness. The Commission shall annually send a copy of the current investment policy to all dealers approved to do business with the Commission. Each broker dealer or financial institution that has been authorized by the Commission shall be required to submit and annually update a Broker/Dealer Questionnaire which includes the firm's most recent financial statements. The Chief Financial Officer shall maintain a file for each firm approved for investment purposes, which includes the most recent Broker/Dealer Questionnaire.

XII. Safekeeping and Custody

To protect the Commission's assets, all securities owned by the Commission shall be held in safekeeping in the Commission's name by a third party bank trust department, acting as agent for the Commission under the terms of a custody agreement executed by the bank and the Commission. All securities will be received and delivered using standard delivery versus payment (DVP) procedures; the Commission's safekeeping agent will only release payment for a security after the security has been properly delivered.

Physical delivery securities shall be avoided whenever possible, as book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. In addition, delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

XIII. Ethics and Conflicts of Interest

The Commission adopts the following policy concerning conflicts of interest:

1. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions.
2. Officers and employees involved in the investment process shall disclose any material financial interest in any financial institution that conducts business with the Commission, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Commission's portfolio.
3. Officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Commission.

XIV. Investment Policy Review

The Chief Financial Officer shall annually render to the Board a statement of investment policy, which the Board must consider at a public meeting. Any changes to the policy shall also be considered by the Board at a public meeting.