



## INVESTMENT POLICY

### **I. Introduction**

The purpose of this Investment Policy (this “Policy”) is to identify policies and procedures that enhance opportunities for a prudent investment program and to organize and formalize investment-related activities of the Riverside County Transportation Commission (the “Commission”).

### **II. Scope**

It is intended that this Policy cover all funds (except retirement funds) and investment activities under the direction of the Commission serving as the Commission’s governing board. Investment activities may be classified between operating and bond/debt portfolios.

### **III. Delegation of Authority**

The Commission’s management responsibility for the investment program is hereby delegated for a one-year period to the Chief Financial Officer in consultation with the Executive Director who shall monitor and review all investments for consistency with this Policy. Subject to review, the Commission may renew the delegation of authority pursuant to this section each year. 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.

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 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. Both fixed and floating or variable rate securities are eligible investments. Percentage limitations, where indicated, apply *at the time of purchase*. Unless otherwise noted below, no security shall be purchased in accordance with this Policy that has a term remaining to maturity in excess of five years. Percentage holdings with any one non-U.S. Government issuer or non-Federal Agency issuer are further restricted to a maximum of 10% (direct and indirect commitments), except as otherwise noted. Rating requirements where indicated, apply *at the time of purchase*. The term or remaining maturity of a security purchased in accordance with this Policy shall be measured from the settlement date to final maturity. A security purchased in accordance with this Policy shall not have a forward settlement date exceeding forty-five (45) days from the time of investment. 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 be authorized to act immediately and to notify the Commission of any actions taken in regard to the security. 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 rating drop, prognosis for recovery or further rating 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. **Supranational Obligations. United States dollar denominated senior unsecured unsubordinated** obligations issued, or unconditionally guaranteed, by the following supranational institutions:
  - 1. International Bank for Reconstruction and Development;
  - 2. International Finance Corporation; and
  - 3. Inter-American Development Bank.

Such securities must have a maximum maturity of four (4) years and ratings from at least one Nationally Recognized Statistical Rating Organization (NRSRO) as follows: at least “Aa/AA/or AA” which denotes “Aa2” by Moody’s Investors Service (Moody’s), or “AA” by S&P Global Ratings (S&P), or “AA” by Fitch Ratings (Fitch); or as otherwise approved by the Commission. Investments in supranational obligations are limited to a maximum of 20% of Commission funds which may be invested with no more than 10% of funds invested in any one supranational institution.

### D. **Municipal Bonds.**

Registered treasury notes or bonds of any of the other 49 United States, in addition to California, 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 United States, in addition to California. Such securities must have a maximum maturity of five (5) years and ratings from at least one NRSRO as follows: at least “A1/A+/or A+”; or as otherwise approved by the Commission.

Registered general obligation treasury notes or bonds of any of the 50 United States. Such securities must have a maximum maturity of five (5) years and ratings from at least one NRSRO as follows: at least “A1/A+/or A+” or as otherwise approved by the Commission.

Taxable or tax-exempt bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California with a maximum maturity of five (5) years and ratings from at least one NRSRO as follows: at least "A1/A+/or A+" (the minimum rating shall apply to the local agency, irrespective of any credit enhancement), including bonds, notes, warrants, or other evidences of indebtedness payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by either the local agency, a department, board, agency, or authority of the local agency, or of any local agency within this state.

Investments in municipal bonds are further limited to 25% of the Commission's funds.

- E. Tri-Party Repurchase Agreements.** Tri-party repurchase agreements are to be used solely as short-term investments not to exceed 30 days. The Commission may enter into tri-party repurchase agreements with primary government securities dealers rated "A" or better by two NRSROs. Counterparties should also have (i) a short-term credit rating of at least P-1/A-1/ or F-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 tri-party repurchase agreements must be delivered to the Commission's custodian or fiscal agent bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each tri-party repurchase agreement must equal or exceed 102% of the total dollar value of the money invested by the Commission for the term of the investment. For any tri-party 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 tri-party repurchase agreement. The Commission shall have properly executed a PSA agreement with each counterparty with which it enters into tri-party repurchase agreements.

- F. U.S. Corporate Debt.** Medium-term notes, defined as all corporate and depository institution securities with a maximum remaining maturity of five (5) 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 at least “A1/A+ / or A+” by at least one NRSRO. Investments in U.S. Corporate Debt are further limited to 30% of the Commission’s funds that may be invested, and no more than 10% of total investment assets may be invested in any single issuer.

**G. Commercial Paper.** Commercial paper of “prime” quality 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), and (C) Has debt other than commercial paper, if any, that is rated “A” or its equivalent or higher by at least one 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, and (C) Has commercial paper that is rated at least “A-1”, or the equivalent, by at least one NRSRO.

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

**H. Banker’s Acceptances.** Banker's acceptances issued and accepted by commercial banks. 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 the Commission’s funds with no more than 30% of the Commission’s funds invested in the banker’s acceptances of any one commercial bank.

**I. 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 that 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, or (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 also limited to 20% of the Commission's funds.

**J. Riverside County Pooled Investment Fund ("RCPIF").** The Commission may invest in the Riverside County Pooled Investment Fund (maximum maturity upon demand). 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.

**K. State of California Local Agency Investment Fund ("LAIF").** The Commission may invest in LAIF (maximum maturity upon demand). 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 is 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.

**L. Certificates of Deposit.**

Negotiable Certificates of Deposit (NCD's): The Commission may invest in NCDs issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), or a state or federal credit union. They must specify that a sum of money has been deposited, payable with interest to the bearer of the certificates on a certain date. All purchases must be from institutions rated the highest letter and number rating (e.g., P-1/A-1/or F-1) as provided for by at least one NRSRO, as designated by the U.S. Securities and Exchange Commission. The maturity of NCDs shall not exceed one (1) year to maturity, and purchases of NCDs shall not exceed 30% of the Commission's investment portfolio. NCDs shall be evaluated in terms of the creditworthiness of the issuing institution, as these deposits are uninsured and uncollateralized promissory notes.

FDIC-insured Certificates of Deposit: The principal amount of the investment must be federally insured through the Federal Deposit Insurance Corporation (FDIC). No more than the prevailing FDIC insured coverage amount may be invested with any one deposit. Certificates of Deposit placed through the Certificate of Deposit Account Registry Service (CDARS) shall be considered fully insured, assuming that the total amount invested with any participating bank is limited to the prevailing FDIC insured coverage amount. Interest on the principal must be paid to the Commission at least annually. The placement of Certificates of Deposit with local banks that qualify in accordance with Government Code section 53601(h) is encouraged. The Commission, at its discretion, may invest a portion of its funds in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union using a private sector entity to assist in the placement of such certificates, provided that it complies with Government Code Section 53601.8. Such investments may not exceed in total 20% of the Commission's funds invested pursuant to Government Code Sections 53601.8, 53635.8 and 53601, and shall have a maximum maturity of one (1) year from the date of the deposit.

Collateralized Certificates of Deposit: For investments exceeding \$100,000, there will be a waiver of collateral for the first \$100,000 deposited and protected by FDIC insurance. The remainder of the deposit shall be fully collateralized by U.S. Treasury and Federal Agency securities having maturities less than five years. The Commission must receive written confirmation that these securities have been pledged in repayment of the time deposit. The securities pledged as collateral must have a current market value greater than the dollar amount of the deposit in keeping with the ratio requirements specified in Section 53652 of the Government Code. Additionally, a statement of the collateral shall be provided to the Commission on a monthly basis. Such investments may not exceed in total 15% of the Commission's funds invested pursuant to Government Code Sections 53601.8, 53635.8 and 53601, and shall have a maximum maturity of one (1) year from the date of the deposit.

- M. Time Deposits.** Federal Deposit Insurance Corporation insured money market savings accounts or time deposits which are deposited through depository institutions which are participants of the Money Market Insured Deposit Account Service ("MMIDAS"), and in compliance with Government Code Section 53601.8.
- N. Mortgage and Asset-backed Securities.** Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable-backed bond of a maximum maturity of five (5) years.

Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better (excluding U.S. Government/Agency-backed structured products which will be permitted with their prevailing ratings even if those ratings are below the rating category of "AA") by at least one NRSRO.

Purchase of these securities may not exceed 20% of the Commission's operating investment portfolio. Mortgage and asset-backed securities issued or guaranteed by the United States, its federal agencies and/or government-sponsored enterprises do not count when calculating the 20% maximum portfolio exposure to mortgage and asset-backed securities.

## **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 (5) years if prudent in the opinion of the Chief Financial Officer.

### **3. Ineligible Investments**

The Commission shall not invest any funds in the types of securities as provided in California Government Code Section 53601.6.

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

## **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 (5) years.

Maximum stated term for permitted investments shall be determined based on the settlement date (not the trade date) upon purchase of the security and the stated final maturity of the security. The purchase of a security with a forward settlement date cannot exceed 45 days from the time of investment.

## **VIII. Performance Standards**

The Chief Financial Officer shall continually monitor and evaluate the portfolio's performance.

## **IX. Reporting**

The Chief Financial Officer in consultation with the Executive Director shall prepare and provide to the Commission a monthly report, within 30 days following the end of the month, which includes the following information:

- Type of investment;
- Issuer name;
- Date of maturity;
- Dollar amount invested in all securities, and investments and monies held by the local agency;
- A description of the funds, investments, and programs (including lending programs) managed by contracted parties;
- Current market value of securities;
- A statement of compliance with the Policy or an explanation for non-compliance; and
- 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 Commission'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 (unless purchased directly from the issuer). 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 (as defined in Section 25004 of the Corporations Code), or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association (as defined by Section 5102 of the Financial Code), or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank; and (ii) all broker-dealer firms and individuals must be properly registered with the FINRA 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 NRSROs. Counterparties shall also have (i) a short-term credit rating of at least P-1/A-1/or F-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 creditworthiness. The Commission shall annually send a copy of the current investment policy to all securities professionals approved to do business with the Commission. Each securities professional, financial institution, or any other consultant providing investment advice, as determined in the sole discretion of the Executive Director or designee, which has been authorized by the Commission shall be required to submit and annually update a 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 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 Commission a statement of investment policy, which the Commission must consider at a public meeting. Any changes to the policy shall also be considered by the Commission at a public meeting.