SACRAMENTO REGIONAL TRANSIT
EST. 1973

STAFF REPORT

DATE:	June 10, 2024
TO:	Sacramento Regional Transit Board of Directors
FROM:	Jason Johnson, VP, Finance/CFO
SUBJ:	ANNUAL UPDATE TO INVESTMENT POLICY

RECOMMENDATION

Adopt the Attached Resolution.

RESULT OF RECOMMENDED ACTION

Approval of the attached Resolution will update SacRT's investment policy to better reflect SacRT's investment objectives, California Government Code, and industry best practices.

FISCAL IMPACT

None as a result of this action.

DISCUSSION

SacRT's Investment Policy establishes standards and guidelines for the direction, management, and oversight of the District's investable cash and funds and identifies the investment objectives, tolerance for risk, constraints on the investment portfolio, and the manner in which the investments will be managed and monitored. Investment Policy Section VI requires annual review of SacRT's Investment Policy to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return. The policy is also reviewed for relevance to current law, financial and economic trends, and the needs of SacRT.

On October 22, 2012, the SacRT Board adopted Resolution No. 12-10-0162 approving the Investment Policy and delegating authority to make all investment decisions to SacRT's Investment Officer consistent with Article 1 and 2 of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (§§53600-53997) and the Investment Policy.

On September 7, 2023, SacRT entered into an agreement with Chandler Asset Management, Inc. for investment management and advisory services. The scope included contractor review and recommending updates to the SacRT's Investment Policy.

SacRT staff worked with the Investment Team at Chandler Asset Management, Inc. to update the Investment Policy and identified opportunities for the improvement of, and to better align, the policy with SacRT's investment objectives, California Government Code, and industry best practices.

Revisions to the policy this year include updating the authorized investment asset classes allowed by California Government Code and expanding descriptive language of those currently listed, updating and designating maximum maturities, expanding the description of prohibited investments, adding investment portfolio concentration limits, and creating a section to address and expand on mitigating factors for credit and market risk. Additionally, descriptions and references were updated to align with current California Government Code.

Pursuant to Cal. Gov't Code sec. 53646(a)(2), any change to the investment policy must be considered and approved by the legislative body of the local public agency at a public meeting. Therefore, SacRT staff hereby present a revised Investment Policy for the Board's consideration and approval.

Staff recommends the SacRT Board adopt a Resolution approving SacRT's updated Investment Policy (Exhibit A). A redline version (Attachment 1) is also provided for reference.

Attachment 1

~~SACRAMENTO REGIONAL TRANSIT DISTRICT~~

SACRAMENTO

REGIONAL TRANSIT

INVESTMENT POLICY

~~October 22, 2012~~

June 10, 2024

Table of Contents

SACRAMENTO REGIONAL TRANSIT DISTRICT
INVESTMENT POLICY

I. POLICY

The purpose of the Sacramento Regional Transit District's (~~RT's~~SacRT's) Investment Policy is to establish cash management and investment guidelines for the Investment Officer, who is responsible for the stewardship of ~~RT's investment fund. RT's~~SacRT's investments. SacRT's investments shall be invested in accordance with the provisions of Article 1 and 2 of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (§§53600-53997) unless otherwise noted~~,~~; all section references are to the California Government Code. This policy is written to incorporate industry best practices and recommendations from sources such as the Government Finance Officers Association (GFOA), California Municipal Treasurers Association (CMTA), California Debt and Investment Advisory Commission (CDIAC) and the Association of Public Treasurers of the United States and Canada (APTUSC).

II. STATEMENT OBJECTIVES

The objectives of the Investment Policy include safety of principal, liquidity and meeting the cash flow needs of ~~RT~~SacRT, and return on investment.

A. Safety of Principal – Investments will be undertaken in a manner which first seeks to ensure the preservation of capital in the portfolio. Each investment transaction will be entered into seeking quality in issuer and in underlying security or collateral. Market risk will be reduced by diversifying the portfolio, by limiting the average maturity of the portfolio, by limiting the maximum maturity of any one security and by performing cash flow analyses to avoid the need to sell securities prior to maturity.

B. Liquidity – Investments will be made with maturity dates compatible with cash flow requirements to permit conversion to cash without a significant loss in value.

C. Return on Investment – The investment portfolio will be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints, and the cash flow characteristics of the portfolio.

III. SCOPE

This investment policy applies to ~~RT's~~SacRT's invested funds as defined by Government Code Section 53601. The policy applies to those funds which are not required for ~~RT's~~SacRT's immediate necessities as defined in Section 53601. Excluded from this investment policy are guidelines for the investments of proceeds related to debt financing, defeased lease transactions, 457 Plan funds, and Other Post Employment Benefit and Pension Funds.

IV. PRUDENT INVESTOR STANDARD

Persons authorized to make investment decisions on behalf of ~~RT~~SacRT under this policy are trustees subject to the prudent investor standard set out under Section 53600.3. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing ~~RT's~~SacRT's funds, the Board and those to whom investment authority has been delegated shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of ~~RT~~SacRT, 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 ~~RT~~SacRT.

V. DELEGATION OF AUTHORITY

Authority to manage SacRT's investment program is derived from California Government Code, Sections ~~41006 and~~ 53600 *et seq.*

A. Governing Body – The Board of Directors will retain ultimate fiduciary responsibility for the portfolio. The Board of Directors will receive ~~an annual report~~quarterly reports, designate investment officers, and annually review the investment policy making any changes necessary by adoption.

B. Investment ~~Officers~~Officer – Authority to manage the investment portfolio is granted to the Chief Financial Officer hereinafter referred to as Investment Officer as designated by the Board of Directors.

Responsibility for the operation of the investment portfolio is delegated to the ~~Chief Financial~~Investment Officer who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

C. Investment Adviser – ~~RT~~SacRT may engage the services of one or more external investment managers to assist in the management of ~~RT's~~SacRT's investment portfolio in a manner consistent with ~~RT's~~SacRT's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisors Act of 1940.

D. SacRT's overall investment program must~~shall~~ ~~shall~~ be designed and managed with a degree of professionalism that is worthy of the public trust. SacRT recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered with the context of the overall portfolio's return and the cash flow requirements of SacRT.

VI. ANNUAL INVESTMENT POLICY AND ~~ANNUAL REPORT~~QUARTERLY REPORTS ON INVESTMENTS

The Investment Officer shall be responsible for the preparation of the annual statement of investment policy ~~and the annual report on investments~~ as permitted under Section 53646. The annual statement of investment policy and the quarterly report on investments shall be presented to the Board of Directors for review and approval. The quarterly report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market value of each component of the portfolio, including funds managed for ~~RT~~SacRT by third party contracted managers.

Pursuant to Section 53646(e), if all funds are placed in Local Agency Investment Fund (LAIF), FDIC-insured accounts and/or a county investment pool, the foregoing report elements may be ~~placed~~replaced by copies of the latest statements from such institutions. The report must also include a certification that: (1) All investment actions executed since the last report have been made in full compliance with the Investment Policy; and (2) ~~RT~~SacRT will meet its expenditure obligations for the next six months as required by Section 53646(b)(2) and (3), respectively. The Investment Officer shall maintain a complete and timely record of all investment transactions.

Management shall establish an annual process of independent review by the external auditor to assure compliance with internal controls. Such an audit will include tests deemed appropriate by the auditor.

VII. REVIEW OF INVESTMENT PORTFOLIO

The Investment Officer ~~shall~~must ~~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 of Directors.

VIII. PERFORMANCE EVALUATION

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

The Investment Officer ~~shall~~must ~~shall~~ monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s), which will be included in the Investment Officer's quarterly report. The Investment Officer must ~~shall~~ select an appropriate, readily available index to use as a market benchmark.

IX. MAXIMUM MATURITY

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

SacRT 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.

~~VII.~~X. AUTHORIZED INVESTMENTS

~~Authorized investments shall be those authorized under Article 1 and Article 2 of Chapter 4 of the California Government Code. Pursuant to Section 16429.1, authorized investments shall include investments in the State Local Agency Investment Fund (LAIF). The table below illustrates the investments authorized by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk. Interest rate risk is the risk that the value of fixed income securities will decline because of rising interest rates, on the~~

~~table below, interest rate risk corresponds to the maximum maturity. Credit risk relates to the potential that bond issuers will fail to make interest or principal payments. Credit risk is related to the minimum rating section on the table below. Finally, concentration of credit risk is the risk associated with a lack of diversification within an entities investments. To address this risk there are limits on the maximum percentage of the portfolio and maximum investments in one issuer an entity can hold at a given time. Note that in some cases the table below is more restrictive than the state requirements when deemed prudent by RT.~~

Authorized Investment Type	Maximum Maturity	Minimum Rating	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local agency bonds	5 years	N/A	None	None
U.S. Treasury obligations	5 years	N/A	None	None
U.S. Agency securities	5 years	N/A	None	None
Bankers' acceptances	180 days	N/A	40%	30%
Commercial paper	270 days	A1/P1	25%	10%
Negotiable certificates of deposit	5 years	N/A	30%	None
Reverse repurchase agreements	92 days	N/A	20% of base value	None
Medium-term notes	5 years	A	30%	None
Mutual funds investing in eligible securities	N/A	AAA	20%	10%
Mortgage pass-through securities	5 years	AA	20%	None
Local Agency Investment Fund	N/A	N/A	None	None
JPA pools (other investment pools)	N/A	N/A	None	None

~~IMPORTANT NOTE: If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Investment Officer shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Investment Officer will apply the general objectives of safety, liquidity, yield and legality to make the decision.~~

~~VIII. PROHIBITED INVESTMENTS AND DIVESTMENT~~

SacRT's investments are governed by the California Government Code, Sections 53600 *et seq*. Within the investments permitted by the Code, SacRT 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.

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 may ~~shall~~ be reinvested only as provided in the current policy.

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

INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO	MINIMUM QUALITY (Rating) REQUIREMENTS	MAXIMUM INVESTMENT IN ONE ISSUER
Local Agency Bonds	5 years	30%*	None	5%*

U.S. Treasury Obligations	5 years	None	None	None
State Obligations— CA And Others	5 years	30%*	None	5%*
CA Local Agency Obligations	5 years	30%*	None	5%*
U.S Agency Obligations	5 years	None	None	30%*
Bankers' Acceptances	180 days	40%	None	5%*
Commercial Paper—Non-Pooled Funds (under $100,000,000 of investments)	270 days or less	25% of the agency's money	Highest letter and number rating by an NRSRO	5%*
Commercial Paper—Non-Pooled Funds (min. $100,000,000 of investments)	270 days or less	40% of the agency's money	Highest letter and number rating by an NRSRO	5%*
Negotiable Certificates of Deposit	5 years	30%	None	5%*
Non-negotiable Certificates of Deposit	5 years	20%*	None	None
Placement Service Deposits	5 years	30%*	None	None
Placement Service Certificates of Deposit	5 years	30%*	None	None
Repurchase Agreements	1 year	None	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	None	None
Medium-Term Notes	5 years or less	30%	"A" rating category or its equivalent or better	5%*
Mutual Funds And Money Market Mutual Funds	N/A	20%	Multiple	10%
Collateralized Bank Deposits	5 years	None	None	None
Mortgage Pass–Through and Asset–Backed Securities	5 years or less	20%	"AA" rating category or its equivalent or better	5%*
Joint Powers Authority Pool	N/A	20%*	Multiple	None
Local Agency Investment Fund (LAIF)	N/A	None	None	None
Voluntary Investment Program Fund	N/A	None	None	None
Supranational Obligations	5 years or less	30%	"AA" rating category or its equivalent or better	10%*
Public Bank Obligations	5 years	None	None	None

**SacRT's investment policy is more conservative than is required by the California Government Code, Sections 53600 et seq. for these investment types.*

Description of Securities (Note – Securities may fall under multiple investment types.)

1. Municipal Securities include obligations of SacRT, 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").

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, 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").

3. 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 SacRT may invest in Federal Agency or Government-Sponsored Enterprises (GSEs), provided that:

   - The maximum percentage of agency callable securities in the portfolio will be 20%.

4. 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.

5. Commercial Paper, provided that the securities are 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:

      (i) A corporation organized and operating in the United States with assets more than $500 million.
      (ii) The securities are rated "A-1" or its equivalent or better by at least one NRSRO.
      ~~(i)~~(iii) 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:
      (i) The issuer is organized within the United States as a special purpose corporation, trust, or limited liability company.
      (ii) The securities must have program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.

(iii) The securities are rated "A-1" or its equivalent or better by at least one NRSRO.

6. 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).

7. 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.

8. 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.

9. Collateralized Bank Deposits SacRT'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 SacRT may invest in collateralized bank deposits.

10. 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 SacRT 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 SacRT 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).

11. State of California Local Agency Investment Fund (LAIF), provided that:

- LAIF's investments in instruments prohibited by or not specified in SacRT's policy do not exclude the investment in LAIF itself from SacRT's list of allowable investments, provided LAIF's reports allow the Investment Officer to adequately judge the risk inherent in LAIF's portfolio.

12. Joint Powers Authority (JPA) Investment Pools provided that:

- They have retained an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).

13. 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.

14. 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.

15. 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.

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.

16. 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.

XI. PROHIBITED INVESTMENT VEHICLES AND PRACTICES

- State law notwithstanding, any investments not specifically described herein.
- Futures and options.
- In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips.
- Investment in any security that could result in a zero interest accrual if held to maturity. Under a provision sunsetting on January 1, 2026, securities backed by the U.S. Government that could result in a zero or negative-interest accrual if held to maturity are permitted.
- Trading securities for the sole purpose of speculating on the future direction of interest rates.
- Purchasing or selling securities on margin.
- The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage.
- The purchase of foreign currency denominated securities.
- Agencies that are not Qualified Institutional Buyers (QIB) as defined by the Securities and Exchange Commission are prohibited from purchasing Private Placement Securities. The SEC defines a QIB as having at least $100,000,000 in securities owned and invested.
- The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment.

XII. INVESTMENT POOLS/MUTUAL FUNDS

SacRT shall conduct a thorough investigation of any pool or mutual fund prior to making an investment, and reviewed periodically thereafter. The Investment Officer shall develop a questionnaire which will provide the information and answer the general questions below:

- 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, and 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?

XIII. COLLATERALIZATION

Certificates Of Deposit (CDS). SacRT 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. SacRT shall require any bank or financial institution to comply with the collateralization criteria defined in California Government Code, Section 53651.

Repurchase Agreements. SacRT 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.
- SacRT shall receive monthly statements of collateral.

~~The Investment Officer shall not make any investment prohibited under Article 1 or 2 of Chapter 4 of the California Government Code (See e.g. Section 53601.6 and 53631.5). Investments authorized when made, but no longer permitted by applicable law, may be divested from the RT investment portfolio in accordance with the investment statement, investment objectives, and prudent investor standard.~~

~~IX.~~XIV. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES AND BROKER/DEALERS

~~The~~ To the extent practicable, the Investment Officer shall endeavor to complete investment transactions using a competitive bid process whenever possible. SacRT's Investment Officer will ~~maintain a list of~~determine which financial institutions~~, selected on the basis of credit worthiness, financial strength, experience and adequate capitalization that~~ are authorized to provide investment services~~. In addition,~~ to SacRT. It shall be SacRT's policy to purchase securities only from authorized institutions and firms.

The Investment Officer must~~shall~~ ~~shall~~ maintain procedures for establishing a list ~~will also be maintained of approved security~~ of authorized broker/dealers ~~selected by credit worthiness who are authorized to provide investment and financial advisory services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws.~~and financial institutions which are approved for investment purposes that are selected through a process of due diligence as determined by SacRT. Due inquiry shall determine whether such authorized brokers/dealers, and the individuals covering SacRT 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).

~~For brokers/dealers of government securities and other investments, the Investment Officer shall select only brokers/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities or other applicable self-regulatory organizations.~~

~~Before engaging in investment transactions with~~In accordance with Section 53601.5, institutions eligible to transact investment business with SacRT include:

- Institutions licensed by the state as a broker~~/~~-dealer~~, the Investment Officer shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for RT's account with that firm has reviewed the policy and intends to present investment recommendations and transactions to RT that are appropriate under the terms and conditions of the Investment Policy.~~ .
- 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.
- The Federal Reserve Bank.
- Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions ~~with RT shall~~will be at the sole discretion of ~~RT. RT will utilize~~SacRT, except where SacRT utilizes an external investment adviser in which case SacRT 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 Investment Officer with audited financials and a statement certifying that the institution has reviewed the California Government Code, Section 53600 *et seq*. and SacRT's investment policy. The Investment Officer 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.

The selection of brokers/dealers used by an external investment adviser retained by SacRT will be at the sole discretion of the adviser. Where possible, transactions with broker-dealers will ~~shall~~ be selected on a competitive ~~bidding process to determine the~~basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best ~~possible financial institution or broker/dealer to serve the needs of the District~~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.

~~X.~~XV. SAFEKEEPING AND CUSTODY

~~All trades of marketable securities~~All investment transactions will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in ~~RT's~~SacRT's safekeeping institution prior ~~ot~~to the release of funds.

~~Securities will be held by an independent third-party safekeeping institution selected by RT. All securities will be evidenced by safekeeping receipts in RT's name. The safekeeping institution shall annually provide a copy of its most recent report on internal controls – Service Organizations Control Reports (formerly SAS 70) prepared in~~

~~accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011).~~

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 SacRT's portfolio must ~~shall~~ be held in safekeeping in SacRT's name by a third-party custodian, acting as agent for SacRT under the terms of a custody agreement executed by the bank and SacRT. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by SacRT from the custodian listing all securities held in safekeeping with current market data and other information.

The only exceptions to the foregoing must~~shall~~ ~~shall~~ be depository accounts and securities purchases made with: (i) local government investment pools; (ii) joint powers authority (JPA) investment pools, (iii) time certificates of deposit, and (iv) mutual funds and money market mutual funds, since these securities are not deliverable.

~~XI.~~XVI. INTERNAL CONTROLS

Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of ~~RT~~SacRT are protected from loss, theft, or misuse. Specifics for the internal controls are documented in various process specific memos that shall be reviewed and updated periodically, as needed, by the Investment ~~Officers~~Officer.

The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

- Control of collusion
- Custodial safekeeping
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investment and wire transfers
- Dual authorization of wire transfers and ACH payments
- Staff training and
- Review, maintenance, and monitoring of security procedures both manual and automated

Periodically, as deemed appropriate by SacRT and/or the Board of Directors, an independent analysis by an external auditor must ~~shall~~ be conducted to review internal controls, account activity and compliance with policies and procedures.

~~XII.~~XVII. RISK MANAGEMENT AND DIVERSIFICATION

~~RT will diversify the investments by security type and institution. It is the policy of RT to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically. In establishing specific diversification strategies, the following general policies and constraints shall apply:~~

~~A. Portfolio maturities shall be matched versus liabilities to avoid undue concentration in a specific maturity sector.~~

~~B. Maturities selected shall provide for stability of income and liquidity.~~

~~C. Disbursement and payroll dates shall be covered through LAIF, marketable U.S. Treasury bills or other cash equivalent instruments such as money market mutual funds.~~

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. SacRT 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.
- SacRT 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 SacRT’s risk preferences.

- If a security owned by SacRT is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps will be taken:
  - Any actions taken related to the downgrade by the investment manager will be communicated to the Investment Officer in a timely manner.
  - If a decision is made to retain the security, the credit situation will be monitored and reported 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. SacRT 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. SacRT 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.

SacRT 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. SacRT, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- SacRT 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.

~~XIII.~~XVIII. ETHICS AND CONFLICTS OF INTEREST

The Investment Officer shall comply with ~~RT's~~SacRT's adopted Conflict of Interest Code and Code of Ethics. The Investment Officer shall not engage in any activity that would conflict with the proper execution of this investment policy that would create the appearance of such a conflict, or that would impair the Investment Officer's ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. In the event any provision of this policy is in conflict with any of the statutes referred to herein or any other state or federal statute, the provision of such statutes will govern.

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. CDARS is currently the only 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.

Debenture. A bond secured only by the general credit of the issuer.

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.

Derivative. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

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.

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.

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.

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 Person (Prudent Investor) 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 the current client.

Structured Note. Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

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.

RESOLUTION NO. 2024-06-052

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

June 10, 2024

ANNUAL UPDATE TO INVESTMENT POLICY

WHEREAS, in 1996 the Board of Directors adopted an Investment Policy in compliance with Cal. Gov't Code sec. 53600 et seq.; and

WHEREAS, on October 22, 2012, the Board last considered and approved a revised Investment Policy for SacRT's surplus funds; and

WHEREAS, SacRT's Investment Policy requires modification to incorporate statutory updates and industry best practices; and

WHEREAS, pursuant to Cal. Gov't Code sec. 53646(a)(2) the Board must approve any changes to Sacramento Regional Transit District's Investment Policy; and

NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, the Sacramento Regional Transit District's investment policy attached hereto as Exhibit "A", is hereby confirmed for the 2024-2025 fiscal year and any prior Investment Policy document is hereby superseded by the revised Investment Policy.

____
PATRICK KENNEDY, Chair

A T T E S T:

HENRY LI, Secretary

By:______________________________
Tabetha Smith, Assistant Secretary

Exhibit A

SACRAMENTO REGIONAL TRANSIT

INVESTMENT POLICY

June 10, 2024

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SACRAMENTO REGIONAL TRANSIT DISTRICT
INVESTMENT POLICY

I. POLICY

The purpose of the Sacramento Regional Transit District's (SacRT's) Investment Policy is to establish cash management and investment guidelines for the Investment Officer, who is responsible for the stewardship of SacRT's investments. SacRT's investments shall be invested in accordance with the provisions of Article 1 and 2 of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (§§53600-53997) unless otherwise noted: all section references are to the California Government Code. This policy is written to incorporate industry best practices and recommendations from sources such as the Government Finance Officers Association (GFOA), California Municipal Treasurers Association (CMTA), California Debt and Investment Advisory Commission (CDIAC) and the Association of Public Treasurers of the United States and Canada (APTUSC).

II. STATEMENT OBJECTIVES

The objectives of the Investment Policy include safety of principal, liquidity and meeting the cash flow needs of SacRT, and return on investment.

A. Safety of Principal – Investments will be undertaken in a manner which first seeks to ensure the preservation of capital in the portfolio. Each investment transaction will be entered into seeking quality in issuer and in underlying security or collateral. Market risk will be reduced by diversifying the portfolio, by limiting the average maturity of the portfolio, by limiting the maximum maturity of any one security and by performing cash flow analyses to avoid the need to sell securities prior to maturity.

B. Liquidity – Investments will be made with maturity dates compatible with cash flow requirements to permit conversion to cash without a significant loss in value.

C. Return on Investment – The investment portfolio will be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints, and the cash flow characteristics of the portfolio.

III. SCOPE

This investment policy applies to SacRT's invested funds as defined by Government Code Section 53601. The policy applies to those funds which are not required for SacRT's immediate necessities as defined in Section 53601. Excluded from this investment policy are guidelines for the investments of proceeds related to debt financing, defeased lease transactions, 457 Plan funds, and Other Post Employment Benefit and Pension Funds.

IV. PRUDENT INVESTOR STANDARD

Persons authorized to make investment decisions on behalf of SacRT under this policy are trustees subject to the prudent investor standard set out under Section 53600.3. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing

SacRT's funds, the Board and those to whom investment authority has been delegated shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of SacRT, 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 SacRT.

V. DELEGATION OF AUTHORITY

Authority to manage SacRT's investment program is derived from California Government Code, Sections 53600 *et seq.*

A. Governing Body – The Board of Directors will retain ultimate fiduciary responsibility for the portfolio. The Board of Directors will receive quarterly reports, designate investment officers, and annually review the investment policy making any changes necessary by adoption.

B. Investment Officer – Authority to manage the investment portfolio is granted to the Chief Financial Officer hereinafter referred to as Investment Officer as designated by the Board of Directors.

   Responsibility for the operation of the investment portfolio is delegated to the Investment Officer who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy.

   All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

C. Investment Adviser – SacRT may engage the services of one or more external investment managers to assist in the management of SacRT's investment portfolio in a manner consistent with SacRT's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisors Act of 1940.

D. SacRT's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. SacRT recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered with the context of the overall portfolio's return and the cash flow requirements of SacRT.

VI. ANNUAL INVESTMENT POLICY AND QUARTERLY REPORTS ON INVESTMENTS

The Investment Officer shall be responsible for the preparation of the annual statement of investment policy as permitted under Section 53646. The annual statement of investment policy and the quarterly report on investments shall be presented to the Board of Directors for review and approval. The quarterly report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market value of each component of the portfolio, including funds managed for SacRT by third party contracted managers.

Pursuant to Section 53646(e), if all funds are placed in Local Agency Investment Fund (LAIF), FDIC-insured accounts and/or a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certification that: (1) All investment actions executed since the last report have been made in full compliance with the Investment Policy; and (2) SacRT will meet its expenditure obligations for the next six months as required by Section 53646(b)(2) and (3), respectively. The Investment Officer shall maintain a complete and timely record of all investment transactions.

Management shall establish an annual process of independent review by the external auditor to assure compliance with internal controls. Such an audit will include tests deemed appropriate by the auditor.

VII. REVIEW OF INVESTMENT PORTFOLIO

The Investment Officer must 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 of Directors.

VIII. PERFORMANCE EVALUATION

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

The Investment Officer must monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s), which will be included in the Investment Officer's quarterly report. The Investment Officer shall select an appropriate, readily available index to use as a market benchmark.

IX. MAXIMUM MATURITY

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

SacRT 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.

X. AUTHORIZED INVESTMENTS

SacRT's investments are governed by the California Government Code, Sections 53600 *et seq*. Within the investments permitted by the Code, SacRT 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.

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 institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers.

INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO	MINIMUM QUALITY (Rating) REQUIREMENTS	MAXIMUM INVESTMENT IN ONE ISSUER
Local Agency Bonds	5 years	30%*	None	5%*
U.S. Treasury Obligations	5 years	None	None	None
State Obligations— CA And Others	5 years	30%*	None	5%*
CA Local Agency Obligations	5 years	30%*	None	5%*
U.S Agency Obligations	5 years	None	None	30%*
Bankers' Acceptances	180 days	40%	None	5%*
Commercial Paper—Non-Pooled Funds (under $100,000,000 of investments)	270 days or less	25% of the agency's money	Highest letter and number rating by an NRSRO	5%*
Commercial Paper—Non-Pooled Funds (min. $100,000,000 of investments)	270 days or less	40% of the agency's money	Highest letter and number rating by an NRSRO	5%*
Negotiable Certificates of Deposit	5 years	30%	None	5%*
Non-negotiable Certificates of Deposit	5 years	20%*	None	None
Placement Service Deposits	5 years	30%*	None	None
Placement Service Certificates of Deposit	5 years	30%*	None	None
Repurchase Agreements	1 year	None	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	None	None
Medium-Term Notes	5 years or less	30%	"A" rating category or its equivalent or better	5%*
Mutual Funds And Money Market Mutual Funds	N/A	20%	Multiple	10%
Collateralized Bank Deposits	5 years	None	None	None
Mortgage Pass–Through and Asset–Backed Securities	5 years or less	20%	"AA" rating category or its equivalent or better	5%*
Joint Powers Authority Pool	N/A	20%*	Multiple	None
Local Agency Investment Fund (LAIF)	N/A	None	None	None
Voluntary Investment Program Fund	N/A	None	None	None
Supranational Obligations	5 years or less	30%	"AA" rating category or its equivalent or better	10%*
Public Bank Obligations	5 years	None	None	None

**SacRT's investment policy is more conservative than is required by the California Government Code, Sections 53600 et seq. for these investment types.*

Description of Securities (Note – Securities may fall under multiple investment types.)

1. Municipal Securities include obligations of SacRT, 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").

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, 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").

3. 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 SacRT may invest in Federal Agency or Government-Sponsored Enterprises (GSEs), provided that:

    - The maximum percentage of agency callable securities in the portfolio will be 20%.

4. 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.

5. Commercial Paper, provided that the securities are 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:

        (i) A corporation organized and operating in the United States with assets more than $500 million.
        (ii) The securities are rated "A-1" or its equivalent or better by at least one NRSRO.
        (iii) 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:

        (i) The issuer is organized within the United States as a special purpose corporation, trust, or limited liability company.

(ii) The securities must have program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.
(iii) The securities are rated "A-1" or its equivalent or better by at least one NRSRO.

6. 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).

7. 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.

8. 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.

9. Collateralized Bank Deposits SacRT'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 SacRT may invest in collateralized bank deposits.

10. 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 SacRT 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 SacRT 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).

11. State of California Local Agency Investment Fund (LAIF), provided that:

    - LAIF's investments in instruments prohibited by or not specified in SacRT's policy do not exclude the investment in LAIF itself from SacRT's list of allowable investments, provided LAIF's reports allow the Investment Officer to adequately judge the risk inherent in LAIF's portfolio.

12. Joint Powers Authority (JPA) Investment Pools provided that:

- They have retained an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).

13. 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.

14. 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.

15. 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.

   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.

16. 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.

XI. PROHIBITED INVESTMENT VEHICLES AND PRACTICES

- State law notwithstanding, any investments not specifically described herein.
- Futures and options.
- In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips.
- Investment in any security that could result in a zero interest accrual if held to maturity. Under a provision sunsetting on January 1, 2026, securities backed by the U.S. Government that could result in a zero or negative-interest accrual if held to maturity are permitted.
- Trading securities for the sole purpose of speculating on the future direction of interest rates.
- Purchasing or selling securities on margin.
- The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage.
- The purchase of foreign currency denominated securities.
- Agencies that are not Qualified Institutional Buyers (QIB) as defined by the Securities and Exchange Commission are prohibited from purchasing Private Placement Securities. The SEC defines a QIB as having at least $100,000,000 in securities owned and invested.
- The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment.

XII. INVESTMENT POOLS/MUTUAL FUNDS

SacRT shall conduct a thorough investigation of any pool or mutual fund prior to making an investment, and reviewed periodically thereafter. The Investment Officer shall develop a questionnaire which will provide the information and answer the general questions below:

- 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, and 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?

XIII. COLLATERALIZATION

<u>Certificates Of Deposit (CDS).</u> SacRT 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. SacRT shall require any bank or financial institution to comply with the collateralization criteria defined in California Government Code, Section 53651.

Repurchase Agreements**.** SacRT 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.
- SacRT shall receive monthly statements of collateral.

XIV. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES AND BROKER/DEALERS

To the extent practicable, the Investment Officer shall endeavor to complete investment transactions using a competitive bid process whenever possible. SacRT's Investment Officer will determine which financial institutions are authorized to provide investment services to SacRT. It shall be SacRT's policy to purchase securities only from authorized institutions and firms.

The Investment Officer must 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 SacRT. Due inquiry shall determine whether such authorized brokers/dealers, and the individuals covering SacRT 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 SacRT include:

- Institutions licensed by the state as a broker-dealer.
- 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.
- 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 SacRT, except where SacRT utilizes an external investment adviser in which case SacRT 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 Investment Officer with audited financials and a statement certifying that the institution has reviewed the California Government Code, Section 53600 *et seq*. and SacRT's investment policy. The Investment Officer 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.

The selection of brokers/dealers used by an external investment adviser retained by SacRT 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.

XV. SAFEKEEPING AND CUSTODY

All investment transactions will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in SacRT's safekeeping institution prior to the release of funds.

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 SacRT's portfolio shall be held in safekeeping in SacRT's name by a third-party custodian, acting as agent for SacRT under the terms of a custody agreement executed by the bank and SacRT. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by SacRT from the custodian listing all securities held in safekeeping with current market data and other information.

The only exceptions to the foregoing must be depository accounts and securities purchases made with: (i) local government investment pools; (ii) joint powers authority (JPA) investment pools, (iii) time certificates of deposit, and (iv) mutual funds and money market mutual funds, since these securities are not deliverable.

XVI. INTERNAL CONTROLS

Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of SacRT are protected from loss, theft, or misuse. Specifics for the internal controls are documented in various process specific memos that shall be reviewed and updated periodically, as needed, by the Investment Officer.

The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

- Control of collusion
- Custodial safekeeping
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investment and wire transfers
- Dual authorization of wire transfers and ACH payments
- Staff training and
- Review, maintenance, and monitoring of security procedures both manual and automated

Periodically, as deemed appropriate by SacRT and/or the Board of Directors, an independent analysis by an external auditor shall be conducted to review internal controls, account activity and compliance with policies and procedures.

XVII. 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. SacRT 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.
- SacRT 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 SacRT’s risk preferences.
- If a security owned by SacRT is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps will be taken:
    - Any actions taken related to the downgrade by the investment manager will be communicated to the Investment Officer in a timely manner.
    - If a decision is made to retain the security, the credit situation will be monitored and reported 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. SacRT 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. SacRT 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.

SacRT 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. SacRT, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- SacRT 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.

XVIII. ETHICS AND CONFLICTS OF INTEREST

The Investment Officer shall comply with SacRT's adopted Conflict of Interest Code and Code of Ethics. The Investment Officer shall not engage in any activity that would conflict with the proper execution of this investment policy that would create the appearance of such a conflict, or that would impair the Investment Officer's ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. In the event any provision of this policy is in conflict with any of the statutes referred to herein or any other state or federal statute, the provision of such statutes will govern.

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. CDARS is currently the only 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.

Debenture. A bond secured only by the general credit of the issuer.

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.

Derivative. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

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.

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.

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.

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 Person (Prudent Investor) 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 the current client.

Structured Note. Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

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.