

APPENDIX A

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY (ACTA) INVESTMENT POLICY

I. INTRODUCTION

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

The investment policies and practices of ACTA are based upon California State Law and prudent money management. It is the policy of ACTA to comply with all Federal, State and local laws governing the investment of monies under the control of ACTA. The monies entrusted to ACTA (referred to as the “Fund” throughout the remainder of this document) will be invested, reinvested administered, and reported in a timely and prudent manner. The Chief Financial Officer or Treasurer of ACTA will observe, review and react to changing conditions that effect the Fund.

II. SCOPE

It is intended that this policy cover all Funds and investment activities of ACTA unless specifically excluded by the Governing Board of ACTA (ACTA).

III. OBJECTIVES

A. Safety of Principal

Safety of principal is the foremost objective of ACTA. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or erosion of market value. The Treasurer or Chief Financial Officer of ACTA shall seek to preserve principal by mitigating the two major types of risk: credit risk and market risk.

1. Credit Risk. Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing only with issuers whose financial strength and reputation can be verified to be highly rated by nationally recognized rating agencies (see Section VIII. Authorized Investments for detailed limitations on credit risk), and by diversifying the investment portfolio so that the failure of anyone issuer would not unduly harm ACTA’s cash flow.
2. Market Risk. Market risk, the risk of the market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by (a) structuring the portfolio so that securities mature at or near the timing of major anticipated cash outflows, thus reducing the need to sell securities prior to their maturity; (b) prohibiting the use of leverage and margin accounts; and (c) prohibiting the use of short positions-that is, selling securities which ACTA does not own. It is

explicitly recognized herein, however, that in a diversified portfolio, occasional measured losses are inevitable, and must be considered within the context of the overall investment return.

B. Liquidity

ACTA's investment portfolio will remain sufficiently liquid to meet normal operating and unexpected expenditures.

C. Return on Investment

ACTA's investment portfolio shall be designed to attain a market-average rate of return through economic cycles. Whenever possible, and consistent with risk limitations, as defined herein, and prudent investment principles, the Treasurer or Chief Financial Officer of ACTA shall seek to augment returns above the market average rate of return.

IV. DELEGATION OF AUTHORITY

The Board delegates its authority to invest Funds of ACTA to the Treasurer and Chief Financial Officer, who have full responsibility for transactions until the Board delegation of authority is revoked. The authority to execute investment transactions that will affect the Fund will be limited to the Treasurer, and Chief Financial Officer. ACTA may engage the services of an Independent Investment Consultant(s) to assist in the management of ACTA's Funds. Such Independent Investment Consultant(s) may be granted discretion to purchase and sell investment securities in accordance with this investment policy. Such Independent Investment Consultant(s) must be registered under the Investment Advisers Act of 1940. All investment decisions and transactions shall be made in strict accordance with state law and this investment policy.

V. SAFEKEEPING OF SECURITIES

To protect against potential losses by collapse of individual securities dealers, all securities owned by ACTA, including collateral on repurchase agreements, shall be held in safekeeping by a bank trust department, acting as agent for ACTA under the terms of a custody agreement executed by the bank and by ACTA. All securities will be received and delivered using standard delivery versus payment procedures, i.e., ACTA's safekeeping agent will only release payment for a security after the security has been properly delivered. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) money market mutual funds, since the purchased securities are not deliverable. Evidence of these instruments will be held by the Treasurer or his designee.

VI. REPORTING

The Treasurer or Chief Financial Officer of ACTA shall render regular reports to the Board as required by Government Code Section 53646. The reports are to include the detail of portfolio holdings by security (including cash) at the end of each calendar quarter. In

accordance with Government Code 53607 a monthly transaction report will be furnished upon request. The quarterly report will be submitted within forty-five days following the end of the quarter covered by the report, or at the earliest Board meeting thereafter. At a minimum, the quarterly report shall:

- A. Include for all investments held the type of investment, issuer, and date of maturity, par and dollar amount invested, rate of interest, credit quality, and current market value as of the date of the report. Any managed Funds shall be described in the quarterly report.
- B. State that the portfolio is in compliance with the ACTA investment policy, or describe the manner in which the portfolio is not in compliance with the ACTA investment policy.
- C. Include a statement denoting ACTA's ability to meet its expenditure requirements for the next six months, or provide an explanation as why sufficient money shall, or shall not, be available.

VII. QUALIFIED DEALERS

ACTA shall transact business only with banks, savings and loans, Federal savings bank, and investment security dealers. Independent Investment Consultant(s), if any, shall transact business with those securities firms which are on their "approved broker list" and whose annual reports are on file at the Independent Investment Consultant's place of business.

VIII. AUTHORIZED INVESTMENTS

Generally, investments shall be made in context of the "prudent investor" rule, which states that:

"When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee 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 the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

ACTA is further governed by the California Government Code. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters will take precedence. Percentage holding limits listed in this section apply at the time the security is purchased. Within the context of these limitations, the following investments are authorized, as further limited herein:

- A. Bonds issued by ACTA, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by ACTA. There is no limitation as to the percentage of the portfolio, which can be invested in this category.

- B. United States Treasury Bills, Bonds, and Notes, or “when issued” securities of the United States Government for such securities, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the portfolio which can be invested in this category. Maturity is not to exceed the projected dates of the ACTA’s cash needs or five years, whichever is less.
- C. Registered State Warrants or Treasury notes or bonds of the State of California (State) or any other of the 49 states of the United States of America, including bonds, payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the State or by a department, board, agency, or authority of the State, so long as such warrants, notes, or bonds are rated “A” or higher by Moody’s or Standard and Poor’s. Although there is no percentage limitation on the dollar amount that can be invested in these issues, the “prudent investor” rule shall apply for a single issue. Maturity is not to exceed the projected dates of ACTA’s cash needs or five years, whichever is less.
- D. Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this State or any other of the 49 states of the United States of America, including bonds, payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board agency, or authority of the local agency or pre-refunded bonds, notes, warrants or other evidences of indebtedness of any local agency within the State so long as such warrants, notes, or bonds are rated “A” or higher by Moody’s or Standard and Poor’s, and any pre-refunded obligations are rated in the highest rating category for such issues as rated by Moody’s or Standard and Poor’s. Although there is no percentage limitation on the dollar amount that can be invested in these issues, the “prudent investor” rule shall apply for a single local agency. Maturity is not to exceed the projected dates of ACTA’s cash needs or five years, whichever is less.
- E. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. Although there is no percentage limitation on the dollar amount that can be invested in these issues, the “prudent investor” rule shall apply for a single agency name. The amount invested in callable federal agency securities shall not exceed 20 percent of the portfolio. Maturity is not to exceed the projected dates of the ACTA’s cash needs or five years, whichever is less.

FDIC Guaranteed Notes - Notes issued by corporations under the Federal Deposit Insurance Corporation’s (FDIC) Temporary Liquidity Guarantee Program (TLGP). These notes are backed by the full faith and credit of the United States Government. FDIC Guaranteed Notes, not to exceed 5 years in maturity and no more than 5% in any one entity.

- F. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 180 days to maturity or 40% of the market value of the portfolio. No more than 10% of the market value of the portfolio may be invested in banker's acceptances issued by anyone bank.
- G. Commercial Paper. Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):
1. The entity meets the following criteria: (a) Is organized and operating in the United States as a general corporation. (b) Has total assets in excess of five hundred million dollars (\$500,000,000). (c) Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization.
 2. The entity meets the following criteria: (a) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (b) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (c) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization.

Purchases of eligible commercial paper may not exceed 25% of the market value of the portfolio. No more than 10% of the market value of the portfolio may be invested in commercial paper issued by anyone corporation. Maturity is not to exceed 270 days.

- H. Negotiable certificates of deposit issued by a nationally or state-chartered bank or state or federal saving and loan association. Negotiable certificates of deposit (NCDs) differ from other certificates of deposit by their deposit liquidity. They are issued against funds deposited for specified periods of time and earn specified or variable rates of interest. NCDs are traded actively in secondary markets. The maximum maturity of NCDs shall not exceed two years. Transactions in NCDs shall not collectively exceed 30% of the total portfolio. Purchases are limited to institutions which have long-term debt rated "A" or better and/or have short-term debt rated at least "A1" a nationally recognized rating service.
- I. Repurchase Agreements. ACTA may invest in repurchase agreements with banks and dealers with which ACTA has entered into a master repurchase agreement which specifies terms and conditions of repurchase agreements.
1. Transactions shall be limited to the primary dealers and banking institutions rated "A" or better by Moody's or Standard and Poor's. The maturity of repurchase agreements shall not exceed 90 days. The market value of securities used as collateral for repurchase agreements shall be monitored daily by the Treasurer or

Chief Financial Officer and will not be allowed to fall below 102% of the value of the repurchase agreement plus the value of collateral in excess of the value of the repurchase agreement (haircut). In order to conform with provisions of the Federal Bankruptcy Code which provide for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall securities that are direct obligations of, or that are fully guaranteed as to principal and interest by, the United States or any agency of the United States.

2. Not more than 50% of the portfolio may be invested in repurchase agreements and a security interest satisfactory to ACTA shall always be maintained in the securities subject to a repurchase agreement.
- J. Local Agency Investment Fund. ACTA may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State Law.
- K. Time Deposits. ACTA may invest in non-negotiable time deposits collateralized in accordance with the California Government Code, in those banks and savings and loan associations which meet the requirements for investment in negotiable certificates of deposit. Since time deposits are not liquid, no more than 15% of the portfolio may be invested in this category. The issuer firm should have been in existence for at least five years. Time deposits are required to be collateralized as specified under Government Code Section 53630 et. seq. ACTA may waive the first \$100,000 of collateral security for such deposits if the institution is insured pursuant to federal law. Real estate mortgages may not be accepted as collateral. The maximum term for deposits shall be one year. In general, the issuer must have a minimum 6% net worth to assets ratio. The issuer's operations must have been profitable during their last reporting period. The financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided Government Code Section 53635.2.
- L. Los Angeles County Treasurer Investment Pool. ACTA may invest in the County's Investment Pool as prescribed by Government Code.
- M. Money Market Funds. Eligible funds are those investing solely in U.S. Treasury securities and U.S. Government Agency securities, and repurchase agreements secured by U.S. Treasury securities and U.S. Government Agency securities; and which Money Market Fund(s) must also have met either of the following criteria:
1. Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.
 2. Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in U.S. Treasury securities and U.S. Government Agency securities and with assets under management in excess of \$500 million.

No more than 20% of the portfolio may be invested in Money Market Funds, with no more than 10% invested in any one Money Market Fund.

- N. Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations 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. Purchases are limited to securities rated “A” or better by a nationally recognized rating service. ACTA may invest no more than 30% of the portfolio in Corporate Bonds or Notes and no more than 10% of the portfolio with a single corporate issuer. Maturity is not to exceed the projected dates of ACTA’s cash needs.
- O. Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-back bond of a maximum of five years maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an “A” or higher rating for the issuer’s debt by Moody’s or Standard & Poor’s and rated in a rating of category of “AAA.” Purchase of securities authorized by this subdivision may not exceed 20% of the agency’s surplus money that may be invested pursuant to this section. Maturity is not to exceed the projected dates of ACTA’s cash needs or five years, whichever is less.
- P. Ineligible Investments. Investments not described herein, including but not limited to, reverse repurchase agreements, and common stocks are prohibited from use in this portfolio. Section 53601.6 of the Government Code specifically disallows investments in inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity.
- Q. Authorized Investments for Bond Proceeds. Bond proceeds shall be invested in securities permitted by the applicable bond documents. If the bond documents are silent as to the permitted investments, bond proceeds will be invested in securities permitted by this Policy.

In addition, to securities listed in this section, bond proceeds may be invested in Guaranteed Investment Contracts and Investment Agreements with issuers of “AA” rating or better by Moody’s or Standard & Poor’s. Such contracts are to be of no more than 5 years maturity. No more than 50% of the portfolio may be invested in such contracts and no more than 20% of the portfolio, may be placed under contract with a single entity.

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

IX. TRADING OF SECURITIES

A trade is the movement from one security to another and may be done for a variety of reasons, such as to increase yield, lengthen or shorten maturities, to take a profit, or to increase investment quality. The purchase and sale transaction must each be recorded separately and any losses or gains on the sale must be recorded.

X. PORTFOLIO ADJUSTMENTS

Should an investment percentage-of-portfolio limitation be exceeded due to an incident such as fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses. When no loss is indicated, ACTA shall consider reconstructing the portfolio basing the decision in part on the expected length of time the portfolio will be out of compliance.

XI. PORTFOLIO DURATION LIMITATION

It is the objective of this Policy to provide a system which will accurately monitor and forecast revenues and expenditures so that ACTA can invest Funds to the fullest extent possible. Funds of ACTA will be invested in accordance with sound treasury management principles.

The maximum maturity of individual investments shall not exceed the limits set forth in Section VIII. Authorized Investments. However, no investment shall exceed a maturity of five years from the date of purchase unless the Board has granted express authority to make that investment either specifically, or as a part of the investment provisions relating to a bond issuance and authorized by the applicable bond documents, or as a part of an investment program approved by the Board no less than one month prior to the investment. The weighted average duration of the entire portfolio shall not exceed three (3) years.

XII. CERTIFICATE OF UNDERSTANDING

Depositories, and Independent Investment Consultant(s), who do investment-related business with ACTA, shall sign a Certification of Understanding. The Certification of Understanding shall state that the entity:

- A. Has read and is familiar with ACTA's Investment Policy as well as Applicable Federal and State Law;
- B. Meets the requirements as outlined in this Policy;
- C. Agrees to make every reasonable effort to protect the assets of ACTA from loss;
- D. Agrees to notify ACTA in writing of any potential conflicts of interest.

XIII. MONITORING CREDIT RATINGS

Independent Investment Consultant(s), if any, shall monitor the ratings of all investments in assigned portfolios on a continuous basis and report any credit downgrades of lower than an A" rating for portfolio securities to the Chief Financial Officer in writing within 24 hours of

the credit event. If an existing investment's rating drops below the minimum allowed for new investments made pursuant to this policy, the Independent Investment Consultant(s) shall also make a written recommendation to the Treasurer and Chief Financial Officer as to whether the downgraded security should be held or sold.

XIV. POLICY REVIEW

This investment policy shall be reviewed regularly, and submitted to the Board for its approval at least annually, to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return, and its relevance to current law and financial and economic trends. The Board shall be responsible for maintaining guidance over this investment policy to ensure that ACTA can adapt readily to changing market conditions, and approve any modification to the investment policy prior to implementation. Any changes in the investment policy shall also be reviewed and approved by the Board at a public meeting.

XV. STATE LAW

The legislated authority of the Fund is covered in Section 53601, 53635, 53638, 53646, 53652, and 53653 of the Government Code. It is the policy of ACTA to comply with the State laws governing the Fund.