

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29

**RESOLUTION NO. 2010-52**

**A RESOLUTION OF THE ALBANY CITY COUNCIL RE-DELEGATING  
INVESTMENT AUTHORITY TO THE CITY TREASURER AND ADOPTING  
THE INVESTMENT POLICY FOR THE CITY OF ALBANY**

**WHEREAS**, pursuant to Section 53607 of the California Government Code, the City Council must annually delegate investment authority to itself or to the City Treasurer, as appropriate; and

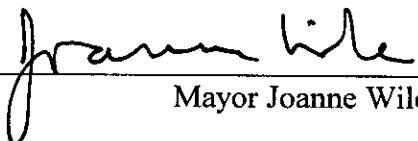
**WHEREAS**, pursuant to Government Code Section 53646 the Treasurer of the local agency shall annually render to the legislative body a statement of investment policy to consider at a public meeting; and

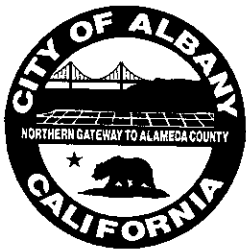
**WHEREAS**, the City Treasurer has made no changes to the investment policy as adopted last year.

**NOW THEREFORE BE IT RESOLVED** that the City Council re-delegates investment authority to the City Treasurer; and

**BE IT FURTHER RESOLVED** that the City Council approves and adopts that certain document entitled CITY OF ALBANY INVESTMENT POLICY as adopted by Resolution #2010-52 , a copy of which is attached as Exhibit A; and

**BE IT FURTHER RESOLVED** that any prior Investment Policy is hereby superceded.

  
\_\_\_\_\_  
Mayor Joanne Wile



# City of Albany

1000 SAN PABLO AVENUE • ALBANY, CALIFORNIA 94706-2295

**CITY ADMINISTRATOR**

PH. (510) 528-5710  
FAX (510) 528-5797

**CITY ATTORNEY**

PH. (510) 524-9205  
FAX (510) 526-9190

**CITY CLERK**

PH. (510) 528-5720  
FAX (510) 528-5797

**CITY COUNCIL**

PH. (510) 528-5720  
FAX (510) 528-5797

**COMMUNITY DEVELOPMENT & ENVIRONMENTAL RESOURCES**

- Building
- Engineering
- Environmental Resources
- Maintenance
- Planning

PH. (510) 528-5760  
FAX (510) 524-9359

**FINANCE & ADMINISTRATIVE SERVICES**

**CITY TREASURER**

PH. (510) 528-5730  
FAX (510) 528-2743

**FIRE & EMERGENCY MEDICAL SERVICES**

PH. (510) 528-5771  
FAX (510) 528-5774

**PERSONNEL**

PH. (510) 528-5714  
FAX (510) 528-5797

**POLICE**

PH. (510) 525-7300  
FAX (510) 525-1360

**RECREATION & COMMUNITY SERVICES**

1249 Marin Avenue  
PH. (510) 524-9283  
FAX (510) 528-8914

- Friendship Club/Childcare Program  
PH. (510) 524-0135
- Senior Center  
PH. (510) 524-9122  
FAX (510) 524-8940
- Teen Center  
PH. (510) 525-0576

**RESOLUTION NO.** 2010-52

PASSED AND APPROVED BY THE COUNCIL OF THE CITY OF ALBANY,

this 18th day of October, 2010, by the following votes:

AYES: Council Members Atkinson, Javandel, Lieber, Thomsen & Mayor Wile

NOES: None

ABSENT: None

WITNESS MY HAND AND THE SEAL OF THE CITY OF ALBANY, this 19th

day of October, 2010.

  
JACQUELINE L. BUCHOLZ, CMC  
CITY CLERK

*The City of Albany is dedicated to maintaining its small town ambience, responding to the needs of the community, and providing a safe, healthy environment now and in the future.*



PRINTED ON RECYCLED PAPER

Exhibit A

CITY OF ALBANY  
INVESTMENT POLICY

As adopted by Resolution 2010-52

**INTRODUCTION**

**GOALS**

The investment policy of the City of Albany is based upon state law, city charter and ordinances and the prudent money management rule. The primary goals of this policy are:

1. To ensure compliance of all State and Local laws governing the investment of monies in the custody of the City Treasurer.
2. To protect the principal monies entrusted to the City Treasurer.
3. To meet the daily cash flow demands of the City.
4. To generate the maximum amount of investment income within the parameters of prudent risk management.

The monies entrusted to the City Treasurer constitute the "Investment Portfolio" referred to in this document.

**IMPLEMENTATION**

**DELEGATION OF AUTHORITY**

Pursuant to the City Charter, management responsibility for investments belongs to the City Treasurer. The Treasurer shall establish procedures for the operation of an investment program consistent with this investment policy and shall perform investment transactions. These procedures will include reference to safekeeping, wire transfer agreements, banking service contracts and collateral/depository agreements. The Treasurer shall be responsible for all transactions undertaken.

However, the Treasurer shall request review and/or approval of the City Administrator or Finance & Administrative Services Director for investments outside of the Local Agency Investment Fund (LAIF) unless otherwise specified.

The Treasurer shall appoint a Deputy City Treasurer who shall perform the Treasurer's duties in the absence of the Treasurer.

## **SCOPE**

The Treasurer is responsible for investing the unexpended cash in the City Treasury. This investment policy applies to all the investment activities of the City of Albany, except for the Public Employees Retirement System (PERS), Deferred Compensation Funds, individual Bond proceeds, and the Police and Fire Relief or Pension Fund of the Police and Fire Departments of the City of Albany, which are administered separately. The financial assets of all funds, with these four noted exceptions, shall be administered in accordance with the provisions of this policy.

## **OBJECTIVES**

Objectives have been set in order to achieve the goals of this investment policy. The primary objectives, in priority order, of the City of Albany's investment policy are:

### **A. Safety of Principal**

Safety of principal is the foremost objective of the City of Albany. With each investment transaction the Treasurer shall seek to ensure that capital losses are avoided, whether these losses are from securities default, broker-dealer default, or erosion of market value. The City shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

1. **Credit risk**, defined as the risk of loss due to the failure of the issuer of a security shall be mitigated by investing in only very safe securities (see list of authorized investments), and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the City's cash flow.
2. **Market risk**, defined as the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by structuring the portfolio so that securities mature at the same time that major cash outflows occur, thus eliminating the need to sell securities prior to their maturity. It is explicitly recognized herein, however, that in a diversified portfolio, occasional measured losses are inevitable and will be considered within the context of overall investment return.

Further guidelines for safety of principal shall include:

1. Limiting the portfolio's exposure to each issue and each issuer of debt.
2. Determining the minimum credit requirements for firms that hold City monies.

### **B. Liquidity**

The City of Albany's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which will be reasonably anticipated. The Portfolio shall maintain a position of at least 50% in "readily marketable" securities, i.e., those securities that are actively traded in the secondary market.

### **C. Return on Investment**

Return on investments shall be a market average rate of return governed by the objectives of safety and liquidity in accord with prudent investment principles.

### **PRUDENCE**

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

"...investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

Officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

### **ETHICS AND CONFLICTS OF INTEREST - see Attachment A**

The Investment Officers, i.e., the City Treasurer and Deputy City Treasurer, shall be governed by the "Code of Ethics" and the "Code of Professional Conduct" of the California Municipal Treasurers Association. The Investment Officers shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Investment Officers shall disclose any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial positions that could be related to the performance of the City of Albany's portfolio. Investment Officers shall subordinate their personal investment transactions to those of the City of Albany, particularly with regard to the timing of purchases and sales.

Investment Officers shall avoid any transaction that might impair public confidence in the City's ability to govern effectively. The Investment Officers shall comply with all relevant state laws governing financial conflicts of interest.

At all times, the Investment Officers shall act as custodians of the public trust.

## **PROCEDURES**

### **MATURITIES**

Maturities shall be selected to anticipate cash needs, thereby eliminating the possibility of the need for forced investment liquidation. Cash flow estimates shall be prepared in a prudent manner.

To insure that funds are always available when needed, the City shall maintain a position of investing no greater than 25% of the portfolio in maturities greater than one year. Further, investments which exceed five years in maturity shall require authorization by the City Council prior to purchase. Further, each individual security shall be limited to one million dollars.

### **INTERNAL CONTROL**

The Treasurer shall establish an annual independent review by an external auditor as required by Governmental Accounting Standards Board Statement #5. The purpose of this review shall be to consider means for improved future performance, and to verify that investments have been made in accordance with the City's policies and procedures.

### **SAFEKEEPING OF SECURITIES**

To protect against potential losses by collapse of individual securities dealers, all securities owned by the City (including collateral on repurchase agreements), shall be held in the City's name in safekeeping by a third party bank trust department. Said trust department shall act as agent for the City of Albany pursuant to a custody agreement between the bank and the City. All securities shall be received and delivered using standard delivery-versus-payment procedures. The Custodian shall provide safekeeping receipts of all securities held.

### **QUALIFIED DEALERS**

The City shall transact business only with banks, savings and loans and investment securities dealers. The dealers must be primary dealers regularly reporting to the Federal Reserve Bank. The Treasurer shall investigate dealers wishing to do business with the City and determine if they are adequately capitalized, make markets in securities appropriate to the City's needs, and are recommended by managers of portfolios similar to the City's.

All financial institutions and securities dealers who desire to engage in investment transactions with the City of Albany shall submit a written certification that the supervising officer has reviewed the City's investment policy and agrees to disclose potential conflicts or risks to public funds that might arise out of business transactions between the firm/depository and the City of Albany. Employers of any financial institution offering securities or investments to the City of Albany shall be trained in the precautions appropriate to public sector investments and shall be required to familiarize

themselves with the City's investment policy.

When two or more investment opportunities offer essentially the same maturity, yield, quality and liquidity, the City of Albany shall seek to promote local economic development by giving priority to the financial institutions in Albany, then Alameda County, and then California.

The City shall at least annually send a copy of the current investment policy to all dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the City's investment policies, and intends to show the City only appropriate investments.

## **REPORTING**

As per state law, the City Treasurer shall render an investment report no less than quarterly to the chief executive officer and the legislative body of the City.

The report shall identify the type of investment, institution, settlement and maturity dates, purchase price and coupon rate. Current book value, current market value and yield to maturity rate shall be given for all securities with a maturity date exceeding twelve months.

## **INVESTMENTS AND STRATEGIES**

### **AUTHORIZED INVESTMENTS**

The City is governed by California Government Code, Section 53600 et seq. Within the context of these limitations, the following investments are authorized as further limited herein:

**United States Treasury Bills, Bonds and Notes**, or those instruments 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.

**Obligations issued by the United States Government Agencies** such as the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA) and the Student Loan Marketing Association (SLMA). Although there is no percentage limitation of the dollar amount that can be invested in these issues, the "prudent investor" rule shall apply for any single agency name.

**Banker's Acceptances**-a bill of exchange or time drafts drawn on and accepted by a commercial bank. 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 one bank.

**Commercial paper** ranked P1 by Moody's Investor Services and A1 by Standard and Poor's, and issued by a domestic corporation having assets in excess of \$500 million and having an A or better rating on its long term debentures as provided by Moody's or Standard and Poor's. Purchases of eligible commercial paper may not exceed 270 days to maturity. Purchases of eligible commercial paper may not exceed 15% 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 one corporation.

**Medium Term Notes (MTNs).** The City may invest in MTNs issued by corporations operating within the United States. MTNs eligible for purchase shall be rated A or better by Standard and Poor's or Moody's rating services. MTNs with an A rating shall be limited to 12 months maximum maturity; AA rated MTNs shall be limited to 12 months. The aggregate total of all purchased MTNs may not exceed 15% of the cost value of the portfolio. No more than 5% of the cost value of the portfolio may be invested in notes issued by any one corporation. Commercial paper holding shall be considered when calculating the maximum percentage in any issuer name.

**Repurchase Agreements (repos).** The City may invest in repurchase agreements not exceeding seven (7) days maturity with banks and dealers with which the City has entered into a master repurchase contract which specifies terms and conditions of repurchase agreements.

**Local Agency Investment FUND (LAIF).** The City may invest in LAIF; a pool established by the State Treasurer for the benefit of local agencies up to the maximum amount permitted by LAIF.

**Investment Trust of California (CalTRUST).** The City may invest in CalTRUST, a pool created by local public agencies to provide a method for local public agencies to pool their assets for investment purposes, up to a maximum of 25% of total funds reported in the most recent quarterly *Cash and Investments Treasury Report*, presented to the City Council by the City Treasurer.

**Time Deposits (CDs).** The City may invest in nonnegotiable time certificates of deposit issued by a national or state chartered bank or federal savings and loan association rated C or better by Sheshunoff Information Services Inc. CDs are collateralized. If the collateral is government securities, 110% of the market value to the face amount of the deposit is required. Promissory notes secured by first mortgages and first trust deeds used as collateral require 150% of the market value to the face amount of the deposit. The City may waive the first \$100,000 of collateral security for such deposits if the institution is insured pursuant to federal law. In order to secure such deposits, an institution shall maintain in the collateral pool securities having a market value of at least 10% in excess of the total amount deposited.



The maximum terms for time deposits shall be one year. 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 and be based in California. In general, the issuer must have a minimum 3% net worth to assets ratio, have \$90 million in assets and its operation must have been profitable during its last reporting period.

**Money Market Accounts.** The City may invest in shares of beneficial interest issued by diversified management companies and federally or state chartered banks that invest in the securities and obligations as authorized by Section 5360(k) of the California Government Code.

## **INELIGIBLE INVESTMENTS**

Investments not described herein, including, but not limited to common stocks, corporate bonds, reverse repurchase agreements, inverse floaters and "derivatives," shall be considered unauthorized and ineligible investments for the City of Albany. Leveraging shall not be used.

## **TRADING**

The City shall not make investments for the purpose of trading or speculation as the dominant criterion, such as anticipating an appreciation of capital value through changes in market rates.

## **SWAPPING OF SECURITIES**

A swap 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.

Losses or gains on security swaps must be recorded as a completed sale and purchase. The City's portfolio is intended to be held to maturity; swaps are allowed only to enhance the portfolio, but not as a regular investment tool.

## **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, the treasurer shall consider restructuring the portfolio basing the decision in part on the expected length of time the portfolio will be imbalanced.

## **POLICY REVIEW**

This investment policy shall be reviewed by the City Council at a public meeting annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, rate of return, and its relevance to current law and financial and economic trends. Amendments and modifications to the policy shall be approved by the City Council prior to implementation.

## Code of Ethics

California Municipal Treasurers Association  
(As Amended by the Board of Directors April 2001)

Ethics is defined by Webster as the rules or standards governing the conduct of the members of a profession. Ethical conduct must be based upon justice and fair play in the fullest sense.

The purpose of this code is to assemble a body of principles to guide members of the California Municipal Treasurers Association as they confront ethical problems when carrying out their duties and responsibilities.

According to Henry J. Wirtenberger, S.J. author of "Morality and Business", two virtues stand out in evaluating the quality of human conduct. They are justice and prudence.

1. St. Thomas Aquinas defined justice as "a cardinal virtue whereby one has the constant and perpetual will to give to others whatever is due them."
2. Prudence is the ability by which a person learns to differentiate between what is good and what is evil, i.e., capable of exercising sound judgment in practical matters. According to Aristotle's brief definition, "Prudence is a reasonable way of doing things."

Using the foregoing principles of justice and prudence as guides, the following Code of Ethics shall govern the professional conduct of active members of the California Municipal Treasurers Association.

1. To protect, preserve and maintain intact cash, investments and other assets placed in trust with the Treasurer on behalf of the residents of the community.
2. To promote principles of good government. To be dedicated to the concepts of effective and efficient local government service being provided by elected and appointed Treasurers.
3. To maintain personal conduct in such a manner as will enhance the stature of the profession and its ability to serve the public.
4. To observe the profession's technical standards and continually strive to improve the Treasurers' level of competence.
5. To be dedicated to the highest ideals of honor, integrity, and objectivity in all public and professional relationships, and to function within existing legal guidelines.
6. To promote cooperation, good relations, bonds of friendship and mutual understanding among the membership.
7. To encourage the development of clear lines of communication between residents and elected officials, administrative officers and employees.
8. To resist encroachments upon areas of responsibility, as the Treasurer must be free to carry out official duties without interference.
9. To seek no personal advantage or gain as a result of the position occupied, or due to the commission of a questionable act.

By accepting membership, each member agrees to be bound and governed by the Code of Ethics and the Code of Professional Conduct as adopted by CMTA.

## **Code of Professional Conduct**

### ***I. THE ASSOCIATION***

The California Municipal Treasurers Association (CMTA) is a professional association of public treasurers organized in 1959.

### ***II. PURPOSE***

The purpose of the Association shall be to promote professional standards for public Treasurers and a fraternal fellow-ship among the members.

### ***III. GENERAL POLICY STATEMENT***

The code was prepared as a policy statement regarding how a member of CMTA approaches matters involving pro-essional conduct. It is a fundamental principle that professional conduct for a public treasurer should exist at a level well above the minimum required by law.

### ***IV. GENERAL RESPONSIBILITIES***

The Treasurer performs at least the following basic functions:

1. Acts as trustee and custodian of all jurisdiction monies.
  1. The Treasurer's primary responsibility is to maintain the safety of monies placed in his/her public trust.
  2. In order to limit exposure to risk, investment transactions should be executed with bank-ers and brokers with adequate capital resources, and purchases should be limited to a small percentage of the firm's capital and surplus.
2. Disburses public monies in accordance with prescribed statutes in a timely manner.
  1. The receipt of revenues and maturities of investments should be scheduled so that adequate cash will be available to meet disbursements.
  2. An adequate percentage of the portfolio should be maintained in liquid short-term securi-ties to be converted to cash if necessary.
  3. The weighted average life of the general governmental portfolio should be maintained within limits dictated by the cash flow needs of the jurisdiction.
  4. Yield becomes a consideration only after the basic requirements of safety and liquidity have been met.
3. Invests temporarily idle monies in accordance with State or local statutes, regulations and administrative directives. (Section 53601 et seq. of the Government Code.)
  1. Purchase of securities should be made on the basis of competitive bids when practical.
  2. Security purchases and holdings are to be maintained within statutory limits imposed by the Government Code or local ordinance.

## *V. REPORTS*

The Treasurer shall file reports as required by various sections of the Government Code.

## *VI. HEARINGS RELATED TO ALLEGATIONS OF PROFESSIONAL MISCONDUCT*

A violation of CMTA's code of professional conduct is grounds for suspension and/or termination of CMTA membership. Upon receiving allegations that a CMTA member has violated provisions of CMTA's code of professional conduct from another CMTA member, the President and board shall do the following:

1. Board Notification by President. The President shall notify board members that an allegation has been made and shall forward all background information provided. The Board will then determine by conference call or fax vote if a Board hearing should be scheduled.
2. Discussion at Board Meeting. If the Board determines a vote is required, the Board shall schedule the matter for discussion and action at a regularly scheduled CMTA Board meeting.
3. Notice and Opportunity to Be Heard. The President shall notify the delegate/member whose conduct is at issue of the fact and nature of the allegations, as well as the delegate/member's opportunity to provide the Board additional information relating to the allegations. Such notice shall occur at least four weeks prior to the Board meeting at which the allegations will be discussed. The member may provide the Board information orally at the board meeting, or in writing at least four days prior to the Board meeting, or both.
4. Board Deliberation and Discussion. After considering all of the information received, the Board may, by a majority vote, do one of the following:
  1. Find that no violation occurred and continue the delegate/representative's membership in good standing.
  2. Depending on the severity of the violation(s) the Board find occurred:
    1. Suspend delegate/representative's membership for a specified period, or
    2. Terminate the delegate/representative's membership.Suspensions and terminations shall be effective immediately.
5. Reinstatement. Any delegate/representative who has been terminated may, for good cause shown, petition for reinstatement.
6. Notice to Agency. If the Board determines that suspension or termination is appropriate, it may provide written notice of its decision and the basis therefore to the delegate/representative's employer.

# **Office of the State Treasurer**



## **Investment Policy**

### **Pooled Money Investment Account**

August 18, 2010

## STATE TREASURER'S OFFICE

### STATEMENT OF PORTFOLIO MANAGEMENT GOALS, OBJECTIVES AND POLICIES

#### POOLED MONEY INVESTMENT ACCOUNT-PMIA

All state money held by the State Treasurer in Treasury trust accounts, and all money in the State Treasury is appropriated for the purpose of investment and deposit as provided in article 4.5, Section 16480 et. al. of the Government Code.

#### **GOAL I. PORTFOLIO SAFETY/DIVERSIFICATION**

The pool will be managed to insure the safety of the portfolio by investing in high quality securities and by maintaining a mix of securities that will provide reasonable assurance that no single investment or class of investments will have a disproportionate impact on the total portfolio.

**OBJECTIVE:** In addition to the safety provided by investing in high quality securities, the safety of the portfolio is enhanced three ways by maintaining a prudent mix (i.e., diversity) of investments: 1) Spreading investments over different investment types minimizes the impact any one industry/investment class can have on the portfolio; 2) Spreading investments over multiple credits/issuers within an investment type minimizes the credit exposure of the portfolio to any single firm/institution; and 3) Spreading investments over various maturities minimizes the risk of portfolio depreciation due to a rise in interest rates. An unforeseen liquidity need allows no options if ***“all your eggs are in one basket.”***

**POLICY:** The portfolio shall contain a sufficient number and diversity of marketable securities so that a reasonable portion of the portfolio can be readily converted to cash without causing a material change in the value of the portfolio. Limitation and eligibility as to specific investments are to be determined by the Pooled Money Investment Board in the case of Commercial Paper, the Treasurer's Office Investment Committee in cases of new dealer authorizations and approval of new corporate investments, and the Treasury Investment Division in all other matters.

#### **GOAL II. LIQUIDITY**

The pool will be managed to ensure that normal cash needs, as well as scheduled extraordinary cash needs can be met. Further, adequate liquidity shall be maintained to ensure the unforeseen cash needs, whether ordinary or extraordinary.

**OBJECTIVE:** The pool will maintain a ***“cash flow generated”*** portfolio balance sufficient to cover specifically the one-month prepared cash forecast, as well as generally the six month prepared cash forecast. Further, sufficient marketable treasuries will be maintained to cover unforeseen withdrawals or delayed deposits.

**POLICY:** First priority is given to maintaining specific calendar liquidity, as dictated by the most recent cash forecast. Second priority is the maintenance of Treasury Bill positions adequate to meet unscheduled needs. Final consideration would be given to “*other*” investments deemed appropriate to portfolio maintenance, enhancement, or restructuring.

### **GOAL III. RATE OF RETURN**

Pooled investments and deposits shall be made in such a way as to realize the maximum return **consistent with safe and prudent treasury management.**

**OBJECTIVE:** The rate of return will be maintained on a consistent level representative of current market yield direction.

**POLICY:** Sales gains/losses will not be incurred to the point of radically altering the final quarterly apportionment rate. Significant sales gains will be offset for restructuring purposes to maintain consistent current return, as well as maximizing future portfolio performance. Significant sales losses shall be incurred only by consent of the Treasurer, or when sufficient profits negate the alteration of the apportionment rate. Range bonds and inverse yielding securities are examples of the types of investments which are precluded by the above stated objective.

### **CONFORMANCE**

All of the foregoing goals, objectives and policies shall be observed by the Chief of Investments or his designee, monitored by the Treasurer's Investment Committee, and reviewed continually by the Treasurer or his/ her assistant.

**STATE TREASURER'S OFFICE**  
**STATEMENT OF PORTFOLIO MANAGEMENT GUIDELINES**  
**POOLED MONEY INVESTMENT ACCOUNT-PMIA**

The State Treasurer's Investment Division has set forth a general declaration of portfolio goals, objectives and policies. Following are various guidelines necessary to the good faith observance of these policies.

**I. GUIDELINES FOR MAINTAINING SAFETY/DIVERSIFICATION**

There are few statutory limitations placed on individual categories of authorized investments. However, this does not entitle the investment staff to "*carte blanche*" participation in these security types. In the absence of direct statutory limitations, the "*prudent person rule*" shall be utilized by the investment staff. As market conditions change, altering credit risk, marketability, yield spreads, and securities availability, application of this rule shall govern any investment decision. This application shall be discussed as soon as time permits with the Chief of Investments. At the Chief of Investments determination, the situation may be discussed with the full investment committee or brought directly to the attention of the Treasury Management.

Following are various considerations/limitations as they pertain to specific investment types:

**A. U.S. Treasury Securities**

- |    |                                     |            |  |
|----|-------------------------------------|------------|--|
| 1) | Maximum maturity:                   | Statutory: | 30 years.  |
|    |                                     | Policy:    | 5 years.   |
| 2) | Maximum par value, total portfolio: |            | None.  |
| 3) | Maximum par value per name:         |            | None.  |
| 4) | Maximum par value per maturity:     |            | None.  |
| 5) | Credit:                             |            | Full faith and credit of the Federal Government. |

Treasury Bills are maintained for liquidity, trading, and yield enhancement as the underlying security in a Reverse Repurchase transaction. Treasury strips and full coupon securities are purchased for average maturity preservation, liquidity, and trading.



**B. Agencies (Federal and Supranational)**

- |    |  |            |           |
|----|--|------------|-----------|
| 1) | Maximum maturity:  | Statutory: | 30 years. |
|    |  | Policy:    | 5 years.  |
| 2) | Maximum par value, total portfolio:  |            | None.     |
| 3) | Maximum par value per name:  |            | None.     |
| 4) | Maximum par value per maturity:  |            | None.     |
| 5) | Credit: Despite there being no statutory limitations concerning this category, prudent investment practice necessitates constant credit analysis of certain issuing entities. Although there exists an implicit or explicit government guarantee of the various issues, market perception may limit the liquidity of these securities. |            |           |

**C. Bankers Acceptances-Domestic/Foreign**

- |    |                   |            |           |
|----|-------------------|------------|-----------|
| 1) | Maximum maturity: | Statutory: | None.     |
|    |                   | Policy:    | 180 days. |

(This maximum maturity is a criterion used to determine eligibility for purchase by the Federal Reserve. Our authority is based on the eligibility as determined by the Fed. However, since the Fed has discontinued its eligibility requirements and purchases, this criterion is no longer applicable. Currently, a majority of acceptances are created only for 180 days.)

- |    |                                     |   |       |
|----|-------------------------------------|---|-------|
| 2) | Maximum par value, total portfolio: |   | None. |
| 3) | Maximum par value per name:         |   | None. |
| 4) | Maximum par value per maturity:     |   | None. |
| 5) | Credit:                             |   |       |
|    | a)                                  | The history of the acceptance market is spotless on <b>“Failures to redeem.”</b> This is true even through the years of WW II.  |       |
|    | b)                                  | Geopolitical location is of prime concern when considering potential candidates. Internal, as well as border political and economic stability of the host country are of prime concern. |       |
|    | c)                                  | Liquidity as far as both credit risk and marketability in the secondary level are addressed.  |       |

- d) Although statutory authority does not limit eligibility according to ranking or rating, previously listed general criteria eliminate lesser credits.

**D. *Certificates of Deposits***

- |    |                                     |   |          |
|----|-------------------------------------|---|----------|
| 1) | Maximum maturity:                   | Statutory:  | None.    |
|    |                                     | Policy:   | 5 years. |
| 2) | Maximum par value, total portfolio: |   | None.    |
| 3) | Maximum par value per name:         |   | None.    |
| 4) | Maximum par value per maturity:     |   | None.    |
| 5) | Credit:                             |   |          |
|    | a)                                  | Criteria concerning loan make-up, LDC exposure, geographic location, market perceptions, and financial condition all serve to eliminate lesser names.   |          |
|    | b)                                  | Liquidity as far as both credit risk and marketability in the secondary level are addressed. There must be a market for the name in which at least three major dealers will bid or offer at a given moment. |          |

**E. *Collateralized Time Deposits***

- |    |                                     |   |  |
|----|-------------------------------------|---|--|
| 1) | Maximum maturity:                   | Statutory:  | None.  |
|    |                                     | Policy:   | 5 years.   |
| 2) | Maximum par value, total portfolio: |   | None.  |
| 3) | Maximum par value per name:         | Statutory:  | Shall not exceed the net worth of the institution. |
|    |                                     | Policy:   | Same.  |
| 4) | Maximum par value per maturity:     |   | None.  |
| 5) | Credit:                             | Institutions must be rated average or better, or above a “D”, by a recognized rating service utilized by the State Treasurer’s Office (STO) Investment Division and must pass a credit evaluation by the STO Staff. This evaluation may include a review of such criteria as geographic location, |  |



**G. Corporate Bonds/Notes**

- |    |  |            |          |
|----|--|------------|----------|
| 1) | Maximum maturity:  | Statutory: | None.    |
|    |  | Policy:    | 5 years. |
| 2) | Maximum par value, total portfolio:  |            | None.    |
| 3) | Maximum par value per name:  |            | None.    |
| 4) | Maximum par value per maturity:  |            | None.    |
| 5) | Credit: Securities eligible for investment under this subdivision must be issued by corporations (including banks) organized and operating within the United States and shall be within the top three ratings of a nationally recognized rating service. |            |          |

**H. Repurchases (RP) and Reverse Repurchase (RRP)**

- |    |                                     |   |   |
|----|-------------------------------------|---|---|
| 1) | Maximum maturity:                   | Statutory:  | None.   |
|    |                                     | Policy:   | 1 year.   |
| 2) | Maximum par value, total portfolio: | Statutory:  | None.   |
|    |                                     | Policy:   | RRP is limited to 10% of the current portfolio. |
| 3) | Maximum par value per name:         |   | None.   |
| 4) | Maximum par value per maturity:     |   | None.   |
| 5) | Credit:                             |   |   |
|    | a)                                  | Must have on file, a signed Security Loan Agreement and/or General Repurchase Agreement. Repurchase Agreement may be either STO General Agreement or Bond Market Association Standard Agreement (formerly known as PSA Standard Agreement). |   |
|    | b)                                  | Reverses and reverse repurchases are only done with long established and/or well capitalized broker-dealers.  |   |

The Reverse Repurchase Program is designed to augment the overall portfolio yield in a safe and prudent manner. It is not viewed as a tool with which to effect specific portfolio moves or plan major market strategy. The portfolio carries reversed securities at negative book and the re-investment at positive book. As a result, the reported size of the portfolio represents the true cash participation of its members. All reverses are cash matched either to the maturity of the re-investment or an adequately positive cash flow date which is approximate to the maturity of the re-investment. For example, if cash flow is positive on

January 27 and negative on January 31, then the reverse may mature on the 27th, and the re-investment may be taken to the 31st. Cash flow is evened out, and a positive spread is achieved. Only securities already held in the portfolio and unencumbered may be reversed. No item purchased against reverse will be used as a reversible security while the original reverse is outstanding (i.e., the STO does not leverage one liability with another). The amount against reverse re-investment will be limited to maturities under one year, effectively limiting the appropriate securities to generic money market issues. Because of the role played by the Reverse Program in this office, customized or structured products are not considered appropriate re-investment candidates. All costs, earnings, and spreads are fixed at the beginning of each transaction.

**I. Negotiable Order of Withdrawal (NOW)**

- |    |   |            |  |
|----|---|------------|--|
| 1) | Maximum maturity:   | Statutory: | None.  |
|    |   | Policy:    | Open ended.  |
| 2) | Maximum par value, total portfolio:   | Statutory: | None.  |
|    |   | Policy:    | 5%.  |
| 3) | Maximum par value per name:   | Statutory: | Shall not exceed the net worth of the institution. |
|    |   | Policy:    | Same.  |
| 4) | Maximum par value per maturity:   | Statutory: | None.  |
|    |   | Policy:    | None.  |
| 5) | Credit: Institutions must be rated average or better, or above a “D”, by a recognized rating service utilized by the State Treasurer’s Office (STO) Investment Division, and must pass a credit evaluation by the STO staff. All other conditions, regulations, or requirements associated with demand and time deposits will also apply.   |            |  |
| 6) | Purpose: The Negotiable Order of Withdrawal (NOW) will act as an intra-day cushion to accommodate unexpected cash flow irregularities. In lieu of late sales to cover unexpected increases in disbursements, or in lieu of late investment limitations to cover unexpected increases in revenues, the NOW account will provide pre-market and post-market liquidity and investment flexibility. |            |  |

## **II. GUIDELINES FOR MAINTAINING LIQUIDITY**

First priority will be the cash flow needs as reported on both the monthly and six-month cash forecasts. These forecasts will be updated daily using the current investment input, as well as adjustment information provided by Cash Management personnel.

Sufficient Treasury securities will be maintained for unscheduled cash needs. It has been determined that Treasury Bills having maximum maturity of 1 year will be used for this purpose. Because of their Government guarantee, as well as the short maturity, the exposure to market risk is minimal.

Due to the make-up of the portfolio participants, an average maturity of 120 days to eighteen months will be maintained.

## **III. GUIDELINES FOR MAINTAINING RATE OF RETURN**

Always keep in mind the need to provide a consistent rate of return not only to the quarterly participants of the pool, but the longer-term depositors as well. It is often the case that investments made with long-term deposits create the base rate to the portfolio. Since sales gains/losses impact the portfolio on a quarterly basis, large gains/losses are to be avoided. Failure to offset either gains or losses proportionately would result in a saw-toothed apportionment rate history. For this reason, extreme positions or styles of trading are prohibited.

An informal weekly meeting, with the Chief of Investments, Assistant Chief, and Investment Manager, will be held to discuss current investment philosophies and upcoming economic releases. Decisions of value and direction are made to accommodate the occurrence of all those events which might be considered reasonable and probable.

Although securities trading is allowed for purposes of enhancing portfolio return, specific limitations have been established to protect the portfolio rate of return:

- 1) Prior to taking a position, apparent value and size will be discussed between the Chief and Treasury Trader involved.
- 2) During a ***“when issued”*** (W.I.) period our long position shall never exceed the amount we are willing to purchase.
- 3) Short positions will not be taken at any time.
- 4) Trading positions are to be reported daily to the Chief of Investments.

**INVESTMENT TRUST OF CALIFORNIA,**

**doing business as**



**A JOINT POWERS AUTHORITY**

**INVESTMENT POLICY**

**FOR THE SHARES PROGRAM**

**EFFECTIVE AS OF:**

**FEBRUARY 24, 2005**

1100 K STREET, SUITE 101  
SACRAMENTO, CALIFORNIA 95814  
TEL (888) 422-8778

## INVESTMENT POLICY FOR THE SHARES PROGRAM

The following are the investment objectives, policies and restrictions (collectively, the “Investment Policy”) for each of the three separately managed programs (each, a “Series”) within the investment program offered by Investment Trust of California, doing business as CalTRUST (“CalTRUST”), whereby participants (“Participants”) invest in shares issued by CalTRUST (the “Shares Program”).

The three Programs of the Shares Program are the “CalTRUST Short-Term Fund” Series (the “Short-Term Fund”), the “CalTRUST Medium-Term Fund” Series (the “Medium-Term Fund”) and the “CalTRUST Long-Term Fund” Series (the “Long-Term Fund”).

All capitalized terms used, but not otherwise defined, herein shall have the meanings ascribed to such terms in the Information Statement for the Shares Program (the “Information Statement”) or the Joint Exercise of Powers Agreement (the “Agreement”). THE INFORMATION STATEMENT AND AGREEMENT PROVIDE FURTHER DETAILED INFORMATION ABOUT THE SHARES PROGRAM AND CALTRUST. PARTICIPANTS SHOULD READ THEM BOTH CAREFULLY PRIOR TO PARTICIPATING IN THE SHARES PROGRAM.

### A. PURPOSE

CalTRUST is a California joint powers authority and public agency established under the provisions of Title 1, Division 7, Chapter 5 of the California Government Code (the “Joint Exercise of Powers Act”), to provide Public Agencies with consolidated investment activities thereby reducing duplication, achieving economies of scale and carrying out coherent and consolidated investment strategies.

### B. WHO MAY INVEST

Each Participant must be: (1) a California “Public Agency” as that term is defined in Section 6509.7 of Title 1, Division 7, Chapter 5, Article 1 of the California Government Code (the “Joint Exercise of Powers Act”), which, as of the date hereof, is defined as “the federal government or any federal department or agency, this state, another state or any state department or agency, a county, county board of education, county superintendent of schools, city, public corporation, public district, or regional transportation commission of the State of California or another state, or any joint powers authority formed pursuant to [article 1 of the Joint Exercise of Powers Act] by any of these agencies,” and includes “a nonprofit corporation whose membership is confined to public agencies or public officials;” and (2) either the United States, a State, or any political subdivision of a State, or any agency, authority or instrumentality of any one or more of the foregoing, or any corporation which is wholly owned directly or indirectly by any one or more of the foregoing, as those terms are used in the Investment Company Act of 1940, as amended.

### C. SERIES BENCHMARKS

The performance benchmarks for the Short-Term Fund, Medium-Term Fund and Long-Term Fund are specified below:



Short-Term Fund:	Local Agency Investment Fund
Medium-Term Fund:	Merrill Lynch U.S. Corporate & Government 1-5 Years, A Rated or Above Index
Long-Term Fund:	Merrill Lynch U.S. Government Treasury & Agency 5- 10 Years, AAA Rated Index

#### **D. MINIMUM PURCHASE**

A Participant must purchase a total of at least \$250,000 of Shares through one or more Series in order to participate in the Shares Program. Whenever a Participant's investment is less than the minimum established from time to time by CalTRUST's Board of Trustees, such Participant will be required to sell its Shares, provided, however, that thirty (30) days prior notice is given to such Participant. If the Board changes the minimum investment to an amount greater than the investment of any Participant at the time that such change becomes effective, such Participant shall not be required to sell its Shares.

#### **E. INVESTMENT BENEFITS**

By purchasing Shares in any Series, the Investment Advisor seeks to provide the following benefits:

- **Preservation of Principal.** Preserve principal to the extent reasonably possible in accordance with the applicable investment strategy by investing only in fixed-income oriented Authorized Investments, and in accordance with an investment strategy designed to preserve capital.
- **Liquidity.** Provide liquidity so that Participants have ready access to their Shares to the extent described in this Information Statement.
- **Income.** Provide as high a level of current income in each Series as is consistent with preserving principal and maintaining liquidity.
- **Professional Management.** Investments are managed by investment professionals that follow both general economic and current market conditions affecting interest rates and the value of fixed-income oriented investments.
- **Diversification.** Each Participant in a Series will own Shares in a diversified portfolio of high quality securities.
- **Accounting, Safekeeping and Separate Series.** The Participants' investments are accounted for in compliance with governmental accounting and auditing requirements, and Participants will be provided with all necessary information to do the bookkeeping and safekeeping associated with the ownership of the Shares. Participants will have secure online access to their accounts, as well as being provided with monthly statements.

*There can be no assurance that the investment objectives of any particular Program will be achieved.*

#### **F. AUTHORIZED INVESTMENTS**

The Shares purchased by the Investment Advisor will comprised exclusively of the following investments (the “Authorized Investments”). These investments are authorized investments under the California Government Code, as may be amended from time to time, for money not required for the immediate needs of Local Agencies. The California Government Code limits the amount of surplus money of a Local Agency which may be invested in certain of the investments described below. Each Participant shall be responsible for monitoring the aggregate amount of its investments in any of these kinds of investments, to assure its own compliance with the California Government Code. None of the Investment Advisor, the Administrator or CalTRUST shall be responsible for such monitoring. ***The Board may revise this Investment Policy from time to time subject to Section 4.2(a) of the Agreement.*** Pursuant to the Agreement, the Board shall cause the amended Investment Policy to be delivered to each Participant.

- (1) Unites States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- (2) Registered state warrants or treasury notes or bonds of this state, 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.
- (3) Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this state, 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.
- (4) 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.
- (5) Bankers acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers acceptances may not exceed 180 days’ maturity or 40 percent of the assets in a Series. However, no more than 30 percent of the assets in a Series may be bankers acceptances of any one commercial bank.
- (6) 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 (“NRSRO”). The entity that issues the commercial paper shall meet all of the following criteria in either clause (a) or (b): (a)(i) is organized and operating in the United States as a general corporation, (ii) has total assets in

excess of five hundred million dollars (\$500,000,000) and (iii) has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO; or (b)(i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond and (iii) has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO. Eligible commercial paper shall have a maximum maturity of 270 days or less. No more than 25 percent of the assets in a Series may be eligible commercial paper. No more than 10 percent of the assets in a Series may be outstanding commercial paper of any single issuer. No more than 10 percent of the outstanding commercial paper of any single issuer may be purchased for a Series.

- (7) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the California Financial Code), or a state or federal credit union, or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 30 percent of the assets in a Series. Purchases shall not exceed the shareholder's equity of any depository bank. Shareholder's equity shall be determined in accordance with Section 118 of the California Financial Code, but shall be deemed to include capital notes and debentures. Purchases shall not exceed the total of the net worth of any savings association or federal association, except that deposits not exceeding a total of five hundred thousand dollars (\$500,000) may be made to a savings association or federal association without regard to the net worth of that depository, if such deposits are insured or secured as required by law. Purchases of negotiable certificates of deposit from any regularly chartered credit union shall not exceed the total of the unimpaired capital and surplus of the credit union, as defined by rule of the California Commissioner of Financial Institutions, except that the deposit to any credit union share account in an amount not exceeding five hundred thousand dollars (\$500,000) may be made if the share accounts of that credit union are insured or guaranteed pursuant to Section 14858 of the California Financial Code or are secured as required by law. Purchases of negotiable certificates of deposit issued by a state or federal credit union are prohibited if a member of the legislative body of any Participant, or any person with investment decisionmaking authority for any Participant, also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.
- (8) Investments in repurchase agreements of Authorized Investments as long as the agreements are subject to the requirements of California Government Code Section 53601(i), including the delivery requirements specified in California Government Code Section 53601(i). "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities

to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery. Investments in repurchase agreements may be made, on any Authorized Investments, when the term of the agreement does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

- (9) 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. Notes eligible for investment under this subsection shall be rated "A" or better by a nationally recognized rating service. Purchases of medium-term notes (not including other Authorized Investments) may not exceed 30 percent of the assets in a Series.
- (10) Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. Such companies shall have attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs or retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price of shares of beneficial interest purchased pursuant to this subsection shall not include any commission that the companies may charge and shall not exceed 20 percent of the assets in a Series.
- (11) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by California Government Code Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by California Government Code Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank which is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.
- (12) Any mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate,

consumer receivable passthrough certificate, or consumer receivable-backed bond of a maximum of five years maturity. Securities eligible for investment under this subsection shall be issued by an issuer having an “A” or higher rating for the issuer’s debt as provided by a nationally recognized rating service and rated in a rating category of “AA” or its equivalent or better by a nationally recognized rating service. Purchase of securities authorized by this subsection may not exceed 20 percent of the assets in a Series.

Funds invested through a Series will be invested by the Investment Advisor in accordance with the prudent investor standard of the California Government Code. Any investments consisting of notes, bonds, bills, certificates of indebtedness, warrants, or registered warrants shall be legal investments for savings banks in the State. Funds invested through a Series will not be invested in any inverse floaters, range notes or mortgage-derived, interest-only strips, or in any security that could result in zero interest accrual if held to maturity.

#### **G. DURATION OF SERIES AND MATURITY OF INVESTMENTS**

Each Series seeks to attain as high a level of current income as is consistent with the preservation of principal. Each Series will invest in only fixed-income oriented Authorized Investments. The Short-Term Fund seeks a target portfolio duration of 1 to 2 years. The Medium-Term Fund seeks a target portfolio duration of 1½ to 3½ years. The Long-Term Fund seeks a target portfolio duration of 5 to 7 years.

Each Series will invest in a diversified portfolio of fixed-income oriented investments of varying maturities with a different portfolio “duration.” Duration is a measure of the expected life of a fixed-income oriented investment that was developed as a more precise alternative to the concept of “term to maturity.” Duration incorporates a bond’s yield, coupon interest payments, final maturity, call and put features and prepayment exposure into one measure. Traditionally, a fixed-income oriented investment’s “term to maturity” has been used to determine the sensitivity of the investment’s price to changes in interest rates (which is the “interest rate risk” or “volatility” of the investment). However, “term to maturity” measures only the time until a fixed-income oriented investment provides its final payment, taking no account of the pattern of the investment’s payments prior to maturity. Duration is used in the management of Series as a tool to measure interest rate risk. For example, a Series with a portfolio duration of two years would be expected to change in value 2% for every 1% move in interest rates.

#### **H. INVESTMENT RESTRICTIONS**

The Board has adopted the following investment restrictions for the Shares Program, which may not be changed in a material way by the Board, except as may be required by applicable law, without the approval of the Participants holding a majority of the Shares in the affected Series. Funds invested through a Series will not be used to:

- (1) Purchase any securities other than those described under “Authorized Investments,” unless California law at some future date redefines the types of securities which are legal investments for all classes of Participants, in which case

the permitted investments for the Series may be changed by the Board to conform to California law.

- (2) Invest in securities of any issuer in which a Trustee, officer, employee, agent or adviser of CalTRUST is an officer, director or 5% shareholder unless such investment is periodically authorized by resolution adopted by the Board, excluding officers, directors or 5% shareholders of such issuer.
- (3) Make loans, except that repurchase agreements may be entered into as specified under “Authorized Investments.”
- (4) Borrow money or pledge, hypothecate or mortgage the assets in a Series or otherwise engage in any transaction that has the effect of creating leverage with respect to a Series; *provided, however*, that short-term credits necessary for the settlement of securities trades may be used, and forward purchases and sales of securities that are expected to settle beyond a normal “T+3” basis may be entered into.
- (5) Purchase the securities of any issuer (other than obligations issued and guaranteed as to principal and interest by the government of the United States, its agencies or instrumentalities) if, as a result, more than 10% of the total assets in a series would be invested in the securities of any one issuer.

#### **I. APPLICATION OF PERCENTAGES**

Any percentage limitation or rating requirement described in this Investment Policy will be applied at the time of purchase.