

Foothill/Eastern Transportation Corridor Agency
Investment Policy
March 10, 2022

I. Purpose

The purpose of this document is to set guidelines for the investment of the Agency's cash. This policy is intended to cover all funds held and invested by the Agency (with the exception of funds governed by other agreements, e.g., indenture funds).

The Agency's ultimate goal is to 1) safeguard the assets, 2) provide liquidity, and 3) enhance the economic status of the Agency. This policy supersedes the previous Investment Policy dated March 11, 2021.

II. Investment Authorization

The investment of the Agency's cash shall fall under the responsibility of the Agency's Treasurer, who is the Chief Financial Officer.

III. Delegation of Authority

Within the Agency, the responsibility for the day-to-day investments shall lie with the Manager, Treasury Operations, under the supervision of the Director of Finance and the Chief Financial Officer.

The Agency may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the Agency's investment portfolio in a manner consistent with the Agency's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

All internal investments with a maturity of more than 60 days or a face amount of \$5 million or more must be approved by two of the following investment team members: the Manager, Treasury Operations, the Director of Finance, the Chief Financial Officer, or the Chief Executive Officer.

IV. Objectives

A. Safety of Principal

Safety of principal is the primary objective of the Agency. 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 Agency shall seek to preserve principal by mitigating the two primary types of risk, credit risk and market risk.

1. Credit Risk

Credit risk, the risk of loss due to failure of the issuer to meet scheduled interest or principal payments, shall be mitigated by investing only in securities issued by companies with credit ratings in one of the three highest ratings categories by at least two nationally recognized statistical rating organizations (NRSRO) unless otherwise noted in Section VI. -Authorized Investments.

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If the credit rating of an investment held in the Agency's portfolio is downgraded below the minimum credit quality criteria of this policy, the Manager, Treasury Operations will notify the Director of Finance immediately and provide an evaluation of the increased risk and potential loss. The Director of Finance shall determine a course of action and notify the Board of Directors in writing as soon as practical.

If an investment is put on notice for possible rating downgrade, it will be treated the same as investments that have already been downgraded.

2. Market Risk

Market risk, the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by matching maturity dates, to the extent possible, with the Agency's expected cash flow draws or by investing such that the duration of the portfolio matches the duration of the respective cash flows within a range of plus or minus 10%. 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

The Agency shall strive to maintain the level of investment of all idle funds as near 100% as possible through monitoring projected cash flows.

C. Return on Investment

The Agency's investment portfolio shall be structured to meet the Agency's scheduled cash flow needs and to attain an acceptable rate of return over the life of the investment program. The acceptable rate of return shall be determined by the Agency's investment staff with consideration given to the following:

1. The Treasurer shall monitor and evaluate the portfolio's performance relative to a market benchmark, if appropriate. The Treasurer shall select an appropriate, readily available index to use as a market benchmark.
2. The ability to efficiently meet the Agency's expected draw schedule, without undue risk to principal.
3. The average modified duration of the investment portfolio over the life of the investment program.
4. The overall credit quality of the portfolio.

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D. Safekeeping

Securities purchased by the Agency, including collateral on repurchase agreements, shall be held in safe-keeping by a third-party bank trust department, acting as agent for the Agency under the terms of a custody agreement or Indenture of Trust, executed by the Agency.

E. Periodic Review

The Agency's investment activities shall be reviewed by the Joint Finance & Investment Committee quarterly and the Board of Directors annually.

V. **Authorized Financial Institutions, Depositories, and Broker/Dealers**

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

The Treasurer shall 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 determined by the Agency. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

Institutions eligible to transact investment business with the Agency include:

- 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 discretion of the Agency, except where the Agency utilizes an external investment adviser in which case the Agency 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 Treasurer with a statement certifying that the institution has reviewed the California Government Code, Section 53600 *et seq.* and the Agency's Investment Policy.

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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.

VI. Authorized Investments

This policy is designed to insure compliance with the California Government Code. The foundation of the California Government Code is to allow investments in basic money market and fixed income securities. This policy has been tailored for the Agency's current operations and may set forth restrictions that exceed the requirements of the aforementioned documents.

General Requirements:

- A. Securities must be denominated in U.S. dollars.
- B. Surplus revenues, i.e., general funds not required for immediate expenditures, can be invested with a Legal Final Maturity Date no longer than five years from the Purchase Date. Certain securities have shorter maturity requirements.
- C. Notwithstanding anything herein to the contrary no more than 5% of the Agency's portfolio may be deposited with or invested in securities issued by any one corporate, financial, or municipal issuer with the exception of securities and deposits issued or guaranteed by the U.S. Treasury, federal agency institutions, and government sponsored enterprises.
- D. Percentage limitations on specific classes of securities shall be based on the purchase price of the security as compared to the market value of the portfolio at the time of purchase. Subsequent changes in market value shall not force sales in a portfolio to avoid exceeding the prescribed allocation level.
- E. Only in exigent circumstances, after all investment options have been explored can the Agency invest in securities issued by, or backed by, the United States government that could result in zero or negative interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. This investment option shall remain in effect only until January 1, 2026 unless legislative action is taken to extend the law.

U.S. Treasury Obligations

- A. These securities include treasury bills, notes, bonds and government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest.
- B. The Agency may invest up to 100% of its portfolio in these securities.

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Federal Agency and U.S. Government Sponsored Enterprise Notes and Bonds

- A. These securities include 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.
- B. Callable securities are permitted as long as the call price equals at least par plus accrued interest and the Legal Final Maturity Date is within policy guidelines.
- C. The Agency may invest up to 100% of its portfolio in these securities. However, no more than 35% of the portfolio may be invested in the securities of any one Agency at the time of purchase.

Supranational Notes and Bonds

- A. These securities include U.S. 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.
- B. The Agency may invest up to 30% of its portfolio in securities issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.
- C. These securities must be rated in the second highest ratings category or better by at least two NRSROs.

Federal Agency Mortgage-Backed Securities

- A. These securities include mortgage pass-through securities, collateralized mortgage obligations, mortgage-backed and other pay-through bonds.
- B. In no case, may the duration of the mortgage-backed security, under a zero prepay scenario, exceed the final expected draw date of the portfolio.
- C. The Agency may invest up to 20% of its portfolio in these securities. However, no more than 15% of the portfolio may be invested in the mortgage-backed and asset-backed securities of any one Federal Agency at the time of purchase.
- D. These securities must be rated in the second highest ratings category by an NRSRO.

Municipal Securities

- A. These securities are limited to (i) obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency or by a department, board, agency or authority of the state or any local agency and (ii) registered treasury notes or bonds of any of the

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other 49 United 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 United States, in addition to California.

- B. The Agency may invest up to 30% of its portfolio in these securities.

Certificates of Deposit

- A. Certificates of Deposit (CDs) must be issued by a nationally or state chartered bank, savings association, federal association, state or federal credit union, or state or federally-licensed branch of a foreign bank (issuing depository institutions).
- B. The issuing depository institution may submit the funds to a Certificate of Deposit Account Registry Service (CDARS), a private sector entity that assists in the placement of certificates of deposit with one or more banks, savings bank, savings and loan associations, or credit unions that are located in the United States. The Agency may invest up to 30% of its portfolio in deposits placed by private sector placement entities.
- C. The Agency may not invest in certificates of deposit issued by a state or federal credit union if any of the Agency's Board or Staff also serves on a board or committee of said credit union.
- D. The full amount of principal and the interest that may be accrued during the maximum term of a certificate of deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration. The Agency may invest up to 100 percent of its total portfolio in CDs.

Negotiable Certificates of Deposit

- A. These certificates must be issued by a nationally or state chartered bank, savings association, federal association, state or federal credit union, or state or federally-licensed branch of a foreign bank.
- B. The Agency may not invest in negotiable certificates of deposit issued by a state or federal credit union if any of the Agency's Board or Staff also serves on a board or committee of said credit union.
- C. The Agency may invest up to 30% of its portfolio in these certificates.

Bankers' Acceptances

- A. Must be drawn on and accepted by a bank which carries a short-term rating in the highest short-term ratings category of an NRSRO.
- B. The Agency may not purchase a bankers' acceptance with a Legal Final Maturity Date greater than 180 days from the Purchase Date.
- C. The Agency may invest up to 30% of its portfolio in these securities.

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Commercial Paper

- A. The commercial paper must be issued by an issuer who (i) is organized and operating inside the United States, (ii) has total assets in excess of \$500 million, and (iii) has debt, if any, that is rated in third highest ratings category by an NRSRO or commercial paper must be issued by an issuer who (i) is organized within the United States as a special purpose corporation, trust, or limited liability company and (ii) has program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
- B. These securities must carry a credit rating in the highest short-term ratings category by an NRSRO.
- C. The Agency may not purchase commercial paper with a Legal Final Maturity Date greater than 270 days from the Purchase Date.
- D. The Agency may invest up to 40% of its portfolio in securities, until January 1, 2026, unless legislative action is taken to extend the law if it has more than \$100,000,000 of investment assets under management. If the Agency's investment under management fall below \$100,000,000 it may invest up to 25% of its portfolio in these securities.
- E. The Agency is restricted to 10% of the outstanding paper of an issuing corporation.

Repurchase Agreements

- A. The Agency may only enter into repurchase agreements with those banks or broker dealers with which it has entered into a master repurchase agreement outlining specific terms and conditions.
- B. Repurchase agreements shall be made only with primary dealers of the Federal Reserve Bank of New York.
- C. The term of repurchase agreements shall have a Legal Final Maturity Date of 90 days or less from the Purchase Date.
- D. If the repurchase agreement has a Legal Final Maturity Date over 30 days from the Purchase Date, the collateral must be marked to market at least weekly.
- E. The collateral must be an Agency authorized investment.
- F. The collateral used for the repurchase agreements shall be equal to at least 102% of the value of the repurchase agreement.
- G. Repurchase agreements are limited to 25% of the portfolio, based on original cost at the time of purchase.

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Medium-Term Maturity Corporate Notes

- A. Corporate Notes must be 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.
- B. The Agency may invest up to 30% of its portfolio in these securities.

State of California Local Agency Investment Fund (LAIF)

- A. Investments in LAIF may not exceed the lesser of \$75 million or 15% of the portfolio at the time the investment is made.
- B. No rating required

County or Local Agency Investment Pools

- A. May not exceed 15% of the portfolio at the time of investment.
- B. No rating required

Asset-Backed Securities

- A. These securities may be backed by installment sales contracts, credit card receivables or other assets.
- B. Asset-backed commercial paper is evaluated as commercial paper.
- C. In no case, may the duration of the asset-backed security, under a zero prepay scenario, exceed the final expected draw date of the portfolio.
- D. The issuer of these securities must have an underlying rating in one of the three highest ratings categories from two nationally recognized rating agencies and the purchased securities must be rated in the highest ratings category by at least one nationally recognized rating agency.
- E. Purchases of asset-backed and mortgage-backed securities are limited to 20% of the portfolio, based on the original cost, at the time of purchase.

Shares in a California Common Law Trust

- A. Established pursuant to Chapter 5 of Division 7, Title 1 of the Government Code of the State of California (such as the California Asset Management Program (CAMP)).
- B. Must be rated in the highest rating category by a NRSRO.

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C. Agency may invest up to 20% of its total portfolio in these securities.

Money Market Mutual Funds

- A. Must be registered with the Securities and Exchange Commission, meeting the requirements of Rule 2a-7 promulgated under the Investment Company Act of 1940.
- B. Must either (i) have the highest applicable rating issued by two NRSROs or (ii) be managed by an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience and with assets under management in excess of \$500,000,000 and be rated in the highest ratings category by an NRSRO.
- C. Investments in this category may not exceed 20% of the portfolio in effect at the time the investment is made and the purchase price of shares may not include commission.

VII. Reporting

Staff shall render a quarterly report to the Board detailing the types of investments in the portfolio, the dollar amount invested in each category, the rate of interest in each category and the total portfolio rate of interest. On a monthly basis, the Staff shall submit a report to the Board detailing transactions for the month.

VIII. Review

This investment policy shall be reviewed 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 economic trends.

IX. Definition of Terms

Asset-Backed Securities

Debt obligations that represent a claim on the cash flows from loans, leases, credit card debt, or a company's receivables through the process known as securitization. Cash flows from loans, leases, credit cards, or receivables provide collateral for the investor.

Bankers Acceptances (BAs)

Time drafts which a bank "accepts" as its financial responsibility as part of a trade finance process. These short-term notes are sold at a discount and are obligations of the drawer (the bank's trade finance client) as well as the bank. Once accepted, the bank is irrevocably obligated to pay the BA upon maturity if the drawer does not.

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Certificate of Deposit Account Registry Service (CDARS)

A program designed to assist public entities with the investment of large deposits into certificates of deposit (CDs) while staying below FDIC insurance limits at any given bank. CDARS is a program that eliminates the need to go from bank to bank in order to purchase a number of CDs by using a private sector placement service. After a bid process with at least three broker/dealers or banks has been completed, a deposit is made to the winning bidder. The funds are ultimately transferred to an FDIC insured bank that spreads the money across several banks, ensuring that the amount of money in each bank is never above the FDIC insurance limit. As part of the CDARS program, the agency conducts business with a single bank which helps eliminate additional paperwork associated with purchasing and accounting for multiple CDs from multiple banks.

Commercial Paper (CP)

Unsecured promissory notes issued by companies and government entities at a discount. Commercial paper is negotiable, although it is typically held to maturity. The maximum maturity is 270 days.

County or Local Agency Investment Pools

Investment pools hold and invest the funds of multiple local investors and issue shares to those investors. Permitted investment sectors are predetermined by the local agencies who participate within the fund. The underlying assets within the pool provide credit support.

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 bond to changes in interest rates.

Federal Agencies and U.S. Government Sponsored Enterprises

U.S. Government related organizations, the largest of which are government financial intermediaries assisting specific credit markets (housing, agriculture). Often simply referred to as “Agencies,” they include:

- Federal Home Loan Banks (FHLB)
- Government National Mortgage Association (GNMA)
- Federal Agricultural Mortgage Corporation (Farmer Mac)
- Federal National Mortgage Association (FNMA)
- Federal Home Loan Mortgage Corporation (FHLMC)
- Federal Housing Administration (FHA)
- Federal Farm Credit Banks (FFCB)
- Tennessee Valley Authority (TVA)
- Export Import Bank
- United States Postal Service
- United States Railway Association

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- Farm Credit Financial Assistance Corporation
- Financing Corporation
- Federal Land Bank

Federal Agency Mortgage Backed Securities

An asset-backed security is secured by a mortgage or a pool of mortgages. Mortgages must originate from a regulated and authorized financial institution. These securities usually pay periodic payments that are similar to coupon payments.

Legal Final Maturity Date

The final date upon which the principal of a security becomes due and payable.

Medium-Term Maturity Corporate Notes

Notes with a final maturity of 5 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.

Money Market Mutual Funds

Money market mutual funds are investment pools that invest exclusively in short-term investments. Money market funds seek the preservation of capital as a primary goal while maintaining a high degree of liquidity and providing income representative of the market for short-term investments. Money Market Funds are secured by the underlying securities within the pool.

Mortgage-Backed or Pass-Through Securities

Pass-through securities are instruments by which the cash flow from the mortgages are passed through as principal and interest payments to the investor. Though these securities may contain a guarantee from the issuer, they are usually a package of mortgage assets being sold, not a debt obligation of the issuer.

Municipal Securities

Securities issued by state and local governments.

Nationally Recognized Statistical Rating Organization (NRSRO)

A credit rating agency used by the Securities and Exchange Commission in the United States for regulatory purposes. Examples of NRSROs are Moody's, Standard and Poor's and Fitch. 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.

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Negotiable Certificates of Deposit (Negotiable CD)

A negotiable (marketable or transferable) receipt for a time deposit at a bank or other financial institution for a fixed time and interest rate.

Repurchase Agreements (Repos)

A repurchase agreement is a purchase of securities under a simultaneous agreement to sell these securities back at a fixed price on some future date. This is in essence a collateralized investment with the difference between the purchase price and sales price determining the earnings. Overnight terms are the most common.

Purchase Date

The date a security is contractually obligated to settle in the Agency's safekeeping account.

State of California Local Agency Investment Fund

Investment pool which holds and invests the funds of local agency investors in the State of California and issues shares to investors.

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. Issuers permitted by the California Government Code are:

- International Bank for Reconstruction and Development
- International Finance Corporation
- Inter-American Development Bank

U.S. Treasuries

Obligations of the U.S. Government including:

- T-Bills: 3-month, 6-month and one-year securities issued and traded at a discount.
- Treasury Notes and Bonds: interest-bearing instruments issued with maturities of two to thirty years.
- STRIPS: Zero-coupon securities. Each STRIP was originally an interest payment or principal payment on a T-bond.