MUNICIPAL POOLING AUTHORITY

Investment Policy

Board Adopted: January 31, 2019

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 Municipal Pooling Authority of Northern California ("the Authority") are based on state law and prudent money management. All funds will be invested in accordance with the Authority's Investment Policy and Article 1 of Chapter 4 of the California Government Code.

II. Scope

It is intended that this policy cover all funds (except retirement funds) and investment activities under the direction of the Authority.

III. Prudence

Investments shall be made 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 Authority, 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 Authority.

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment 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.

IV. Objectives

The primary objectives, in priority order, of the investment activities of the Authority shall be:

1) Safety. Safety of principal is the foremost objective of the investment program. Investments of the Authority shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.

2) Liquidity. The investment portfolio of the Authority will remain sufficiently liquid to enable the Authority to meet its cash flow requirements.

3) Return On Investment. The investment portfolio of the Authority shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

V. Delegation of Authority

The management responsibility for the investment program is hereby delegated to the Chief Administrative Officer who shall monitor and review all investments for consistency with this investment policy. Management responsibility and delegation of authority are for a one-year period, subject to review by the Board and renewable annually. No person may engage in an investment transaction except as provided under the limits of this policy. The Authority may delegate its investment decision making and execution authority to an investment advisor. The advisor shall follow the policy and such other written instructions as are provided.

VI. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

VII. Internal Controls

The Chief Administrative Officer shall establish and maintain an annual process of independent review by a financial auditor. This review will provide independent verification of compliance with policies and procedures.

VIII. Qualified Financial Dealers and Institutions

The Chief Administrative Officer shall maintain a list of financial dealers and institutions qualified and authorized to transact business with the Authority.

The purchase by the Authority of any investment other than those purchased directly from the issuer, shall be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporations Code, which is a member of the Financial Industry Regulatory Authority (FINRA), or a member of a federally regulated securities exchange, a national or state chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

The Chief Administrative Officer shall investigate all institutions that wish to do business with the Authority, to determine if they are adequately capitalized, make markets in securities appropriate for the Authority's needs, and agree to abide by the conditions set forth in the Authority's Investment Policy and any other guidelines that may be provided.

If the Authority has an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of the Authority.

Purchase and sale of securities shall be made on the basis of competitive bids and offers with a minimum of three quotes being obtained, when practical.

IX. Investment Portfolios

Funds available for investment shall be segregated into two categories to meet the Authority's investment goals. Those categories and their specific characteristics are set forth below.

A. Operating Reserve Account

The Reserve Account shall be invested to match its duration to the duration of the Authority's actuarially determined liabilities; and to provide cash to pay losses, as they come due, and to pay the operating expenses of the Authority.

B. Long-Term Growth Account

Recognizing that casualty liabilities are inflation sensitive, the Authority has established the Long-Term Growth Account to provide for long-term asset growth in order to offset potential inflation.

From time to time, the Chief Administrative Officer will inform the investment advisor of amounts that are to be allocated to the two categories and that are required for the payment of claims and operating expenses. The Chief Administrative Officer will provide current actuarial information to the investment advisor in order to assist them in determining the duration of those two accounts.

X. Investment Parameters

A. Operating Reserve Account

1. The investment advisor shall maintain sufficient short-term liquidity in order to pay claims and operating expenses as they arise.

2. The performance objective for the Operating Reserve Account shall be to equal the return on a benchmark index, selected by the Authority and the investment advisor, with characteristics (duration and sector allocation) similar to the characteristics of the Operating Reserve Account. The Operating Reserve portfolio performance, at the end of each quarter, will be compared to the benchmark. A review of the portfolio's characteristics, including the portfolio's performance compared to the benchmark, will be presented to the Board each quarter.

B. Long-Term Growth Account

1. The Long-Term Growth Account shall be managed to a duration equal to the duration of the Merrill Lynch three to five year U.S. Treasury Index, or an equivalent index of three to five year government securities. The portfolio performance shall also be compared to this benchmark on a quarterly basis. A review of the portfolio's characteristics, including the portfolio's performance compared to the benchmark, will be presented to the Board each quarter.

2. The performance objective of the Long-Term Growth Account shall be to exceed the return on the benchmark index over a market cycle.

3. Allocation to the Long-Term Growth Account shall not exceed 25% of the Authority's aggregate assets.

XI. Permitted Investment Instruments

Except as provided below, no more than five percent (5%) of the Authority's investment portfolio may be invested in any one institution, regardless of sector. The types of investments which are excluded from this limitation are:

- United States Treasury and federal agency obligations;
- Obligations of the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and the Inter-American Development Bank (IADB);
- Money market funds and local government investment pools, including LAIF and CAMP.

Credit criteria and maximum and sector allocation percentages listed in this section are calculated at the time the security is purchased.

1. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.

2. 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.

3. 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, provided that the obligations are rated in a rating category "A" or its equivalent or better by a nationally recognized statistical rating organization (NRSRO).

4. Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California. Obligations shall be rated in a rating category "A" or its equivalent or better by a NRSRO.

5. Repurchase Agreements used solely as short-term investments not to exceed 30 days.

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities, as described in XI 1 and 2, will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the Authority's custodian bank by book entry, physical delivery, or by a third party custodial agreement. The total of all collateral for each Repurchase Agreement must equal or exceed, on the basis of market value, 102 percent of the funds borrowed against those securities. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed on a weekly basis.

Market value must be calculated each time there is a substitution of collateral.

The Authority or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

The Authority may enter into Repurchase Agreements only with primary dealers of the Federal Reserve Bank of New York.

The Authority will have specific written agreements with each firm with which it enters into Repurchase Agreements.

Reverse repurchase agreements will not be allowed.

6. Bankers' Acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by a NRSRO.

Purchases of Bankers' Acceptances may not exceed 180 days maturity or 40 percent of the Authority's investment portfolio.

7. Commercial Paper. Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (A) or paragraph (B):

(A) The entity meets the following criteria: (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). (iii) Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization.

(B) The entity meets the following criteria: (i) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (iii) Has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation.

Purchases of commercial paper may not exceed 25 percent of the Authority's investment portfolio.

8. 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 U.S. or any state and operating within the U.S. Medium-term corporate notes shall be rated in a rating category "A" or its equivalent or better by a NRSRO.

Purchase of medium-term notes may not exceed 30 percent of the Authority's investment portfolio. No more than 15 percent of the Authority's investment portfolio may be invested in a medium-term note of any one corporation.

9. FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California. Any financial institution accepting the Authority's funds for deposit must comply with the requirements of Government Code Section 53630 et seq., including collateralization of deposits.

10. Negotiable certificates of deposit or deposit notes issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated "A" or better by a NRSRO.

Purchase of negotiable certificates of deposit may not exceed 30 percent of the Authority's investment portfolio.

11. State of California's Local Agency Investment Fund

The LAIF portfolio should be reviewed periodically. Authority funds may be invested in LAIF up to the current deposit limit permitted by the State Treasurer's Office (STO).

12. Insured savings account or money market account. Any financial institution accepting the Authority's funds for deposit must comply with the requirements of Government Code Section 53630 et seq., including collateralization of deposits.

13. Shares of beneficial interest issued by diversified management companies, that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally recognized rating services or (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds and with assets under management in excess of $500,000,000.

The purchase price of shares shall not exceed 15 percent of the investment portfolio of the Authority.

14. Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in Section 56301 subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.
(3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

15. Supranationals, defined as United States 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, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Supranationals shall be rated "AA" or its equivalent or better by a NRSRO.

Purchase of supranationals may not exceed 30 percent of the Authority's investment portfolio.

16. Asset Backed Securities, defined as all mortgage pass-through securities, collateralized mortgage obligations, mortgage-backed or other pay-through bonds, equipment lease-backed certificates, consumer receivable pass-through certificates, and consumer receivable-backed bonds, with a maximum remaining maturity of five years or less.

Asset backed securities shall be rated in a rating category "AA" or its equivalent or better by a NRSRO.

Purchase of asset backed securities may not exceed 20 percent of the Authority's investment portfolio.

XII. Maximum Maturity

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the Authority to meet all projected obligations.

The maximum maturity will be no more than five years from purchase date to maturity date.

XIII. Derivatives Policy

For purposes of this policy, a derivative is defined as any security where the value is linked to or derived from an underlying asset or benchmark. Any security type or structure not specifically approved by this policy is hereby specifically prohibited. The Authority will not use such derivatives as range notes, dual index notes, inverse floating rate notes, deleveraged notes, or notes linked to lagging indices or to long term indices, nor with the Authority invest in interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity. This policy does not preclude the use of repurchase agreements and callable securities as they do not fall within the definition of a derivative as described herein.

XIV. Reporting Requirements

The Chief Administrative Officer shall provide the Board with a monthly report of investment transactions. In addition, quarterly investment reports shall be submitted by the Chief Administrative Officer to the Authority's treasurer and the Board. The reports shall include, at a minimum, the following information for each individual investment:

- Description of investment instrument
- Issuer name
- Yield on cost
- Purchase date
- Maturity date
- Purchase price
- Par Value
- Current market value and the source of the valuation

The quarterly report shall also (i) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a description of any of the Authority's funds, investments or programs that are under the management of contracted parties, including lending programs, and (iii) include a statement denoting the ability of the Authority to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

This quarterly report shall be submitted within thirty days following the end of the quarter.

The Chief Administrative Officer shall annually submit to the Board a statement of investment policy, which the Board shall consider at a public meeting. Any change in the policy shall also be reviewed by the Board at a public meeting.

XV. Safekeeping and Custody

The assets of the Authority shall be secured through the third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. Collateralized securities such as repurchase agreements shall be purchased using the delivery vs. payment procedure.