

CARSON RECLAMATION AUTHORITY

STATEMENT OF INVESTMENT POLICY

I. Introduction

This policy was developed to formalize the CRA Treasurer's intent to implement prudent investment practices and to serve the public's best interest in regard to investment management, fiscal operations and accountability. Revisions to this policy shall be executed when needed through compliance to federal or state mandates and annual review and adoption at a regular meeting by the Carson Reclamation Authority legislative body.

II. Policy Statement

The Carson Reclamation Authority, hereafter referred to as "CRA", through the adoption of this policy shall invest public funds in a manner that will provide maximum security of the principal invested while meeting the cash flow needs of the CRA. There is a subordinate emphasis on providing the highest yield (return) on the principal. Further, the CRA will conform to all applicable Federal, State, and City statutes governing the investment of public funds.

III. Maintain The Public Trust

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

IV. Delegation of Authority

The CRA Treasurer is the designated investment officer of the CRA and is responsible for investment management decision and activities. The CRA Treasurer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the CRA Treasurer is not present. No deputy/liaison may engage in an investment transaction except as provided under the terms of the policy and procedures established by the CRA Treasurer and approved by the Carson Reclamation Authority legislative body.

V. Investment Philosophy and Prudence

The standard of prudence to be used in the investment function shall be the "Prudent Investor Standard and shall be applied in the context of managing the overall portfolio. Securities shall generally be held until maturity, with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- Liquidity needs of the portfolio require that the security be sold.
- Liquidity a security swap would improve the quality, yield, or target duration in the portfolio.

Prudent Investor Standard: When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law. "In consideration of an investment, the safety of the capital as well as income is part of the "prudent person" approach. Investment officers acting in accordance with 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.

The CRA will not engage in speculative securities which profit from favorable changes in market prices. "Investments shall be made with judgment and care which persons of prudence, discretion and intelligence would 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. In consideration of an investment, the safety of the capital as well as income is part of the "prudent person" approach. Investment officers acting in accordance with 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.

VI. Scope

The scope of this investment policy applies to all financial assets and funds held by the CRA. The CRA Treasurer is authorized to invest the CRA's funds as prescribe by California Government Code section 53600, 6505 and the bond indenture governing the CRA.

VII. Objectives

The investment policy and practices of the CRA Treasurer for the Carson Reclamation Authority are based upon State law and prudent money management. The primary objectives of this policy are in priority order:

SAFETY OF PRINCIPAL: Safety of principal is the foremost objective of the CRA. The investment of funds shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To achieve this goal, diversification is required in the portfolio's composition. The investment portfolio will be diversified to avoid unreasonable and avoidable risks regarding specific security types and individual financial institutions. With diversification, failure of any one institution would not unduly harm the CRA's cash flow.

LIQUIDITY: The investment portfolio shall be structured to match expected cash flow needs. CRA investments must be able to be easily sold with minimal risk of loss of principal or interest. Therefore, the CRA's investment portfolio will remain sufficiently liquid to enable the CRA to meet operating requirements which might be reasonably anticipated.

YIELD: Return on investment becomes a consideration after the basic requirements of investment safety and liquidity are achieved. The CRA's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles commensurate with the CRA's investment risk constraints and the cash flow of the portfolio. The CRA's investment portfolio is designed to operate on a "buy and hold" premise; due to the safety, liquidity and yield priorities, the basis to be used as a benchmark will be the one-year Treasury bill.

VIII. Authorize Investments

It is the policy of the CRA to diversify its investment portfolio. Invested funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. As part of the Treasurer's diversification strategy, investments will be matched with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. The CRA will not invest in securities maturing more than 5 year from the date of purchase or securities not listed in the bond indenture.

Investment of CRA funds is governed by the California Government Code Sections 53600, 6505.5 and the bond indenture. Within the context of the limitations, the following investments are authorized as further limited herein:

A. United States Treasury Obligations

100% Maximum

United States Treasury Bill, Notes and Bonds, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. This investment is both safe and liquid. There is no percentage limitation of the funds that can be invested in this category. Although a five-year maturity limitation is applicable.

B. Federal Agency Obligations

100% Maximum

The CRA may invest in federally sponsored agency securities including obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal Agricultural Mortgage Corporation (Farmer Mac) and the Federal National Mortgage Association (FNMA). The "prudent investor" rule shall apply for a single agency name, as U.S. Government backing is implied rather than guaranteed. There is no percentage limitation of the funds that can be invested in this category.

C. Certificate of Deposits (CD)

100% Maximum

The CRA may invest in Certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by federal securities or by collateral that may be used by a national bank for purposes of satisfying its obligations to collateralize pursuant to federal law. Certificate of Deposits shall not have a maturity greater than one year from the date of investment.

The CRA may invest in Certificates of deposit, savings accounts, or money market deposit (including those of the Trustee and its affiliates) but only to the extent that the amount being invested in such certificates of deposit, savings accounts, deposit accounts or money market deposits are fully insured by FDIC.

All investments in time deposits must be issued by a financial institution whose performance has been reliable and whose safety rating meets the standards established by the CRA Treasurer. The CRA Treasurer will periodically monitor the operating performance of all financial institutions holding CRA time

D. Banker's Acceptances

10% Maximum

The CRA may invest in Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed seven days to maturity or thirty percent of the market value of the funds and shall be in compliance with Government Code Section 53601(g).

6

E. Commercial Paper

15% Maximum

The CRA may invest in Commercial Paper with a short-term rating of “P-1” by Moody’s Investor Services or “A-1” by Standard and Poor’s, and issued by a corporation that is organized and operating within the United States with assets in excess of \$500,000,000, and having an “A” or better rating on its long term debentures, if any, as provided by Moody’s or Standard and Poor’s. Purchases of eligible commercial paper may not exceed fifteen (15%) of the market value of the CRA’s funds nor represent more than ten (10%) from any single issuing corporation. The term to maturity may not exceed 270 days.

F. Local Agency Investment Fund

\$65 Million per Account

The CRA may invest in the Local Agency Investment Fund (LAIF) as established by the State Treasurer of California for the benefit of local agencies up to the maximum amount permitted by State law which is currently \$65 million per account.

I. Money Market Funds or Mutual Funds

20% Maximum

The CRA may invest in shares of beneficial interest issued by diversified management companies that are money market funds (MMFs) registered with the Securities and Exchange Commission under the federal Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.). To be eligible for investment, these companies shall either: (1) attain the highest rating of AAA by at least two nationally recognized statistical rating organizations, one of which must be S&P or Moody’s, or (2) retain an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years’ experience managing money market mutual funds with assets under management in excess of \$500 million. No more than 10% of the surplus funds may be invested in shares of any one money market fund. Allowable investments for this category shall be limited to MMFs which primarily invest only in government securities and repurchase agreements collateralized by government securities.

IX. Unauthorized Investments

Investments not listed in this investment policy are unauthorized. Any State of California legislative action that further restricts allowable maturities, investment types or percentage allocations, will be incorporated into the CRA Investment Policy and supersedes any and all previous applicable language.

X. Safekeeping and Custody

All security transactions, entered into by the CRA shall be conducted on a delivery-versus-payment (DVP) basis. Or if held with the same company from which the securities are purchased are held in the name of or under the control of the agency and kept in a legally separate trust department. Third party custodian shall hold all required securities through the book-entry process.

XI. Authorized Financial Dealers and Institutions

CRA shall transact business with financial institutions authorized to provide investment services in the State of California. To further ensure that investments are purchased only through well established, financially sound institutions, A list will be maintained of approved security broker/dealers selected by credit worthiness, adequate capitalization, and an agreement to abide by the conditions set forth in the CRA's Investment Policy.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions will be given a copy of the CRA's Investment Policy, and in turn must supply the CRA Treasurer with the following:

- Current audited financial statements
- A copy of the latest FDIC Call Report or FHLBB Report, as appropriate
- Proof of FINRA certification and good standing
- Proof of State or Federal registration or charter, as appropriate
- Completed broker/dealer questionnaire
- Certification of having read CRA's investment policy
- Depository contract
- Proof that brokerage firms are members in good standing on a national securities exchange.
- Must be a member of the SIPC- Securities Investors Protection Corporation

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer.

XII. Maximum Maturities

To the extent possible the portfolio will attempt to match its investments with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing a potential realized loss. The portfolio will not directly invest in securities maturing more than five (5) years from the date of purchase pursuant to California Cod 53601. The weighted average maturity of the portfolio shall not exceed 3 years.

8

XIII. Internal Control

The CRA Treasurer shall establish appropriate procedures designed to provide proper control over investments and deposits. On an annual basis these controls will be reviewed in conjunction with the annual audit of the CRA. This review will assure compliance with policies and procedures.

XIV. Ethics and Conflicts of Interest

The CRA Treasurer and Deputy City Treasurer shall avoid any transaction that might impair public confidence in the CRA's ability to govern and manage the investment of public funds in an effective manner. The CRA Treasurer, Deputy City Treasurer or any other official charged with the responsibility of making investment decisions shall have no vested interest in any investment being made involving public funds of the CRA, and shall gain no financial benefit from such investment decisions. All participants in the CRA's investment process shall seek to act responsibly as custodians of the public trust and shall immediately disclose to the Carson Reclamation Authority legislative body any material financial interests in financial institutions that conduct business within their jurisdiction as well as any large personal financial/investment positions that could be related to the performance of the CRA.

XV. Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. Given this objective, the benchmark for investments shall reflect the prominent and persistent characteristics of the portfolio over time. The benchmark may be adjusted periodically when material changes take place.

XVI. Reporting

- The Treasurer shall render a monthly investment reports to the CRA board. The CRA treasurer will establish an investment committee which includes the Reclamation Authority Treasurer, City Finance Director, City Manager and the Investment Advisor who will review investment strategy twice a year or more if the need arise. In addition, the Statement of Investment Policy will be provided annually at the beginning of each calendar year.
- The monthly reports shall include:
 - The Par/Face, Cost and Market value of the investment
 - The classification of the investment
 - The name of the institution or entity
 - The maturity date
 - A list of transactions

- A statement of compliance or manner in which the portfolio is not is compliance
- A statement as to the ability of the CRA to meet its expenditure requirements for the next six months or an explanation of why sufficient money may not be available
- Percentage of the investment portfolio represented by each investment category.

XVII. Investment Policy Review

The investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of SAFETY, LIQUIDITY and YEILD and its relevance to current law and the Reclamation Authority bond indenture. The CRA's investment policy shall be adopted by minute resolution by the Carson Reclamation Authority. This policy shall be reviewed annually by the Carson Reclamation Authority legislative body.

XVIII. Collateralization

Pursuant to Government Code Sections 53652 through 53667, the CRA requires depositories to post certain types and levels of collateral for public funds above the Federal Deposit Insurance Corporation (FDIC) insurance amounts. The collateral requirement applies to bank deposits and certificates of deposit.

Collateral shall always be held by an independent third party with who the entity has a current written custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of substitution is granted.

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GLOSSARY

AGENCIES: Agencies of or sponsored by the Federal government set up to supply credit to various classes of institutions. Examples include Federal Home Loans Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) and Sallie Mae.

BANKERS ACCEPTANCE:

A banker's acceptance (BA) is a short-term debt instrument issued by a company that is guaranteed by a commercial bank.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

CERTIFICATE OF DEPOSIT: A certificate of deposit (CD) is an instrument offered by a bank that guarantees the depositor a rate of return for a set time period.

COLLATERALIZED TIME DEPOSITS: Banks set aside Treasury securities or other qualified collateral to secure jumbo deposits in excess of the limit covered by the Federal Deposit Insurance Corporation (FDIC).

COMMERCIAL PAPER: Commercial paper is an unsecured, short-term debt instrument issued by a corporation

DELIVERY VERSUS PAYMENT: Delivery of securities with a simultaneous exchange of money.

DIVERSIFICATION: Is a risk management technique that mixes a wide variety of investments within a portfolio.

FEDERAL DEPOSIT INSURANCE CORPORATION: U.S. Corporation insuring deposits in the United States against bank failure.

LIQUIDITY: Describes the degree to which an asset or security can be quickly accessed.

LOCAL AGENCY INVESTMENT FUND (LAIF): A program which offers local agencies the opportunity to participate in a major portfolio, which invests hundreds of millions of dollars, using the investment expertise of the State Treasurer's Office investment staff at no additional cost to the taxpayer.

MATURITY: Maturity is the date on which the life of a transaction or financial instrument ends, after which it must either be renewed or it will cease to exist.

MONEY MARKET MUTUAL FUNDS: A money market fund is an investment whose objective is to earn interest for shareholders. A money market fund's portfolio is comprised of short-term, or less than one year, securities representing high-quality, liquid debt and monetary instruments.

NEGOTIALBLE CERTIFICATES OF DEPOSIT: A negotiable certificate of deposit (NCD) is a certificate of deposit with a minimum face value of \$100,000, and they are guaranteed by the bank and can usually be sold in a highly liquid secondary market, but they cannot be cashed in before maturity.

UNITED STATES TREASURY OBLIGATIONS: United States Treasury securities are government debt instruments issued by the United States Department of the Treasury to finance the national debt of the United States. There are four types of marketable treasury securities: Treasury bills, Treasury notes, Treasury bonds.