

Approved 5/25/05

ABAG PLAN Corp. Investment Policy

Association of Bay Area Governments Pooled Liability Assurance Network Investment Policy Approved 5.25.05

1.0 Policy

It is the policy of the ABAG Pooled Liability Assurance Network (PLAN) Corporation to invest in a manner which will provide maximum security with the best investment return, while meeting the cash flow demands of the Corporation and conforming to all applicable laws governing the investment of public funds.

2.0 Scope

This investment policy applies to activities of the Corporation with regard to investing the financial assets of the Administrative, Liability and Property Funds.

3.0 Prudence

Pursuant to California Government Code Section 53600.3, all persons authorized to make investment decisions on behalf of the Corporation are trustees and therefore fiduciaries subject to the 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.”

4.0 Objectives

The overall program shall be designed and managed with a degree of professionalism worthy of the public trust. The primary objectives, in order of priority, of the Corporation’s investment activities shall be:

- 1) **Safety.** Safety of principal is the foremost objective of the investment program. The Corporation’s investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.
- 2) **Liquidity.** The Corporation’s investment portfolio will remain sufficiently liquid to enable the Corporation to meet its reasonably anticipated cash flow requirements.
- 3) **Return on Investment.** The Corporation seeks to attain the maximum possible yield on its investments, consistent with constraints imposed by its safety objectives and cash flow consideration.

5.0 Delegation of Authority

Association of Bay Area Governments (ABAG) is designated as investment manager of the Corporation and is responsible for ensuring all investment activities are within the guidelines of these policies. ABAG shall develop and maintain administrative procedures for the operation of the

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investment program. In order to optimize investment performance through active portfolio management, resources shall be allocated to the investment program. The commitment of resources shall include financial and staffing considerations.

The Board hereby delegates its authority to invest funds of the Corporation to the Chief Financial Officer, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked. Subject to review, the Board may renew the delegation of authority each year. The Chief Financial Officer shall make all investment decisions and transactions in strict accordance with state law and this investment policy.

The Chief Financial Officer and the delegated 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.

6.0 Ethics and Conflicts 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 investment decisions. Employees and investment officials shall disclose to the President any material financial interests in financial institutions that conduct business with ABAG or the Corporation, and they shall further disclose any material financial interest that could be related to the performance of the Corporation, particularly with regard to the time of purchases and sales. For purposes of this section "material financial interests" means any interest described in Government Code Sections 87103(a)-(e), as they may be amended from time to time.

7.0 Internal Controls

The Chief Financial Officer shall establish a system of written internal controls to regulate the Corporation's investment activities, including the activities of any subordinate officials acting on behalf of the Corporation. As part of the annual financial audit, the Corporation's external auditor will perform a review of investment transactions to verify compliance with policies and procedures.

8.0 Authorized Financial Dealers and Institutions

A competitive bid process shall be used to place all investment transactions. It shall be the Corporation's policy to purchase securities only from those authorized institutions and firms. No deposit of public funds shall be made except in a qualified public depository as established by state laws

The Chief Financial Officer shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment purposes. These may include primary or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). The Corporation requires each firm that will be used for the purchase or sale of securities to be evaluated by the Chief Financial Officer prior to any investments. The firms shall submit current financial statements, and annual audited financial statements each year thereafter, which are to be evaluated by the Chief Financial Officer. At a minimum, the firm must be financially sound and have been in business a minimum of three years. In addition, the firms must provide: proof of

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National Association of Security Dealers certification, trading resolutions, proof of state registration or exemption, and certificate of having read the Corporation's investment policy

9.0 Authorized and Suitable Investment

The Corporation is governed by Government Code, Sections 53600 et seq. Within the investments permitted by the Government Code, the Corporation seeks to further restrict eligible investment to the investments listed below. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters will take precedence. Credit criteria listed in this section refers to the credit quality of the issuing organization at the time the security is purchased. The maturity limits are applied at the time of purchase

The portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

1. United States Treasury Issues. United 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. United States Treasury Issues cannot exceed a maturity of 7 years. There is no limitation as to the percentage of the portfolio that may be invested in this category.
2. Federal Agency Obligations. 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. Federal Agency Obligations cannot exceed a maturity of 7 years. There is no limitation as to the percentage of the portfolio that may be invested in this category; however purchases of callable Federal Agency obligations are limited to a maximum of 30 percent of the portfolio. In addition, purchases of Federal Agency mortgage-backed securities issued by or fully guaranteed as to principal and interest by government agencies are limited to a maximum of 20 percent of the portfolio.
3. Medium-term notes. Medium-term notes are defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Purchases are limited to securities rated "AA" or better by a nationally recognized rating service. A maximum of 10 percent of the portfolio may be invested in this category. The amount invested in corporate notes of any one issuer in combination with any other securities from that issuer shall not exceed 10 percent of the portfolio.
4. Bankers Acceptances. Bankers acceptances, otherwise known as bills of exchange or time drafts, that are drawn on and accepted by a commercial bank. Purchasers are limited to issuers whose short-term debt is rated A-1/P-1. Bankers acceptances cannot exceed a maturity of 180 days. A maximum of 25 percent of the portfolio may be invested in this category. The amount invested in bankers acceptances with any one financial institution in combination with any other securities from that financial institution shall not exceed 10 percent of the portfolio.

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5. Commercial Paper. Commercial paper of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (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 a nationally recognized statistical-rating organization.

Eligible commercial paper shall have a maximum maturity of 270 days or less and not represent more than 10 percent of the outstanding paper of an issuing corporation. A maximum of 10 percent of the portfolio may be invested in this category. The amount invested in commercial paper of any one issuer in combination with any other securities from that issuer shall not exceed 10 percent of the portfolio.

6. Negotiable Certificates of Deposit. Negotiable certificates of deposit (NCDs) issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a state-licensed branch of a foreign bank. Purchases are limited to institutions which have long term debt rated “A” or higher with a nationally recognized rating service; and/or have short term debt rated at least “A-1” with a nationally recognized rating service. NCDs may not exceed 2 years in maturity. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested in NCDs with any one financial institution in combination with any other securities from that financial institution shall not exceed 10 percent of the portfolio.
7. Time Certificates of Deposit. Time Certificates of Deposit (TCDs) placed with commercial banks and savings and loans. The purchase of TCDs from out-of-state banks or savings and loans is prohibited. The amount on deposit shall not exceed the shareholder’s equity in the financial institution. To be eligible for purchase, the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided in Government Code Section 53635.2. TCDs are required to be collateralized as specified under Government Code Section 53630 et. seq. The Chief Financial Officer, at his discretion, may waive the collateralization requirements for any portion that is covered by federal insurance. The Corporation shall have a signed agreement with the depository per Government Code Section 53649. TCDs may not exceed 1 year in maturity. A maximum of 10 percent of the portfolio may be invested in this category. The amount invested in TCDs with any one financial institution in combination with any other securities from that financial institution shall not exceed 10 percent of the portfolio.
8. Money Market Funds. 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 and following). The company shall have met either of the following criteria: (A) Attained the highest ranking or the highest letter

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and numerical rating provided by not less than two nationally recognized statistical rating organizations. (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). A maximum of 10 percent of the portfolio may be invested in this category.

9. State of California Local Agency Investment Fund (LAIF). There is no limitation as to the percentage of the portfolio that may be invested in this category. However, the amount invested may not exceed the maximum allowed by LAIF. For due diligence, a copy of LAIF's current investment policy and its requirements for participation, including limitations on deposits or withdrawals shall be maintained on file. In addition, the Chief Financial Officer shall report to the Board quarterly the percentage amount LAIF has invested in each investment sector.

Under the California Government Code, LAIF is allowed greater investment flexibility than the Corporation is permitted. As such, LAIF's investment portfolio may contain investments not otherwise permitted under this policy. For funds invested with LAIF, LAIF's investment policy overrides the Corporation's investment policy.

10.0 Prohibited Investment Practices and Instruments

Any investment in a security not specifically listed in Section 8.0 above, but otherwise permitted by the Government Code, is prohibited without the prior approval of the Board. Section 53601.6 of the Government Code specifically disallows investments in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages. In addition to the limitations in Government Code Section 53601.6, this Policy further restricts investments as follows: (1) the Corporation shall not engage in leveraged investing, such as in margin accounts or any form of borrowing for the purpose of investment, (2) the Corporation shall not invest in securities with floating coupon interest rates, and (3) no investment will be made that has either (a) an embedded option or characteristic which could result in a loss of principal if the investment is held to maturity, or (b) an embedded option or characteristic which could seriously limit accrual rates or which could result in zero accrual periods.

11.0 Duration and Maximum Maturities

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

Assets in the Operating Fund (projected administration expenses and claim payments for a fiscal year) will be invested in LAIF or other highly liquid securities. Assets in the Claims Liability Fund (assets needed to fully fund the Pool as determined by the actuary) will be invested to achieve an average duration that closely matches the duration of Claims Liability as calculated by the actuary. Assets in the Long-term Fund represent assets in excess of full funding requirements of the Pool. Assets in this category can be invested in securities with durations and yields that are higher than those in the Claims Liability Fund.

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The maximum maturity of individual investments shall not exceed the limits set forth in Section 8.0. The Board has approved the investment in U.S. Treasury and Federal Agency obligations with a maximum maturity of up to seven years. However, no investment shall exceed a maturity of seven years from the date of purchase unless the Board has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board no less than three months prior to the investment.

12.0 Safekeeping and Custody

All security transactions entered into by the Corporation shall be conducted on a delivery-versus-payment (DVP) basis. All cash and securities in the Corporation's portfolio shall be held in safekeeping in the Corporation's name by a third party bank trust department, acting as agent for the Corporation under the terms of a custody agreement executed by the bank and the Corporation. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) money market mutual funds, since the purchased securities are not deliverable. Evidence of each these investments will be held by the Corporation.

13.0 Market Yield Benchmark

The Corporation seeks to attain market rates of return on its investments throughout economic cycles, consistent with constraints imposed by its safety objectives and cash flow consideration. The Chief Financial Officer shall continually monitor and evaluate the portfolio's performance. A comparison of the portfolio's performance against a performance benchmark shall be included in the Chief Financial Officer's quarterly report. The Chief Financial Officer shall recommend an appropriate, readily available market index to use as a performance benchmark.

14.0 Reporting

The Chief Financial Officer shall submit a quarterly investment report to the Finance Committee and the Board. The report shall include the following information for each individual investment: Description of investment instrument, issuer name, maturity date, credit rating, coupon rate, effective yield, purchase price, par value, book value, current market value and the source of the valuation. The quarterly report shall also state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, and include a statement denoting the ability of the Corporation to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money may or may not be available. The report shall also include a list of monthly investment transactions. The quarterly report shall be submitted within 30 days following the end of the month covered by the report.

15.0 Policy Adoption

The policy shall be reviewed annually by the Finance Committee. The policy shall be adopted annually by the Board at a public meeting. Any change in the policy shall also be reviewed and approved by the Board at a public meeting.

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Appendix A Summary of Authorized and Suitable Investments

This table is for general reference only. Please see the body of the Policy for a listing of all requirements.

Security Type	Maturity Limits	Maximum Portfolio Percentage Holdings	Rating Requirements
United State Treasury Securities	7 years maximum	100%	None (Treasuries are AAA rated)
Federal Agency Obligations	7 years maximum	100% 25% limit on callable securities. 20% limit on mortgage-backed securities.	None (Agencies are AAA rated)
Medium-Term Corporate Notes	5 years	10% 10% limit per issuer (applies across security types)	AA
Bankers' Acceptances	180 days	25% 10% limit per issuer across security types	Issuers with a short-term rating of A-1/P-1
Commercial Paper	270 days	10% 10% limit per issuer (applies across security types)	A-1/P-1/F-1
Negotiable Certificates of Deposit	2 years	30% 10% limit per issuer (applies across security types)	Issuers with an A long-term debt rating and/or a A-1 short-term debt rating
Time Certificates of Deposit	1 year	10% 10% limit per issuer (applies across security types)	Must have CRA rating "satisfactory"
Money Market Funds	N.A.	10%	AAA rated fund or manager with a minimum 5years experience and \$500 million under management
State of California Local Agency Investment Fund	N.A.	100% (LAIF's limit is \$40 million)	None (LAIF is unrated)