

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)

STAFF REPORT

ISSUE: Staff recommends that the Board approve the revised I-Bank investment policy reflecting the proposed amendments.

BACKGROUND: Although there is no requirement in State law for the I-Bank Board to adopt an investment policy (Investment Policy), it is considered a standard of “best investment practices”¹ for government agencies to have a written investment policy, to review it annually and to have frequent reporting of investment activities. The I-Bank’s Investment Policy was first approved by the Board in March 2006, and was reviewed by the Board in March 2007 and 2008 with no amendments.

Although the Investment Policy requires an annual review, no review was conducted by the Board in March 2009, principally due to staff undertaking a thorough and significant internal review of the Investment Policy that took longer than anticipated. Staff has completed a review of the Investment Policy and is now requesting the Board to consider the proposed Investment Policy amendments contained herein (see Attachment 1—Proposed Investment Policy Amendments and Attachment 2—Proposed Investment Policy as of April 27, 2010).

Expert Assistance Received for the Proposed Investment Policy Amendments. I-Bank staff undertook a significant internal review of the Investment Policy with the goal of clarifying the funds subject to the policy and to more clearly identify the various statutes and other legal authorities applicable to the deposits and investments of the various funds.

Staff obtained input on the proposed amendments from the I-Bank’s current external investment advisor under contract with the I-Bank, Bond Logistix (BLX), and from Public Financial Management, Inc./PFM Asset Management, Inc. (PFM), a financial advisory firm also under contract with the I-Bank.

BLX is a California-based consulting and Security and Exchange Commission registered investment advisory firm that has focused exclusively on the municipal market and serving the public sector for its 20+ year history. BLX is a wholly-owned subsidiary of Orrick, Herrington & Sutcliffe LLP. BLX is completely independent of any financial institution or securities brokerage firm. BLX has over five years experience providing investment management and investment advisory services for bond and operating funds of California state and local government entities that have issued revenue bonds and general obligation bonds. BLX provides pre and post issuance financial consulting services in connection for more than 12,000 transactions issued by approximately 1400 state and governmental entities. BLX has been the I-Bank’s

¹ Source: California Debt and Investment Advisory Commission’s California Public Fund Investment Primer.

investment advisor since 2004, and was again selected by the Board in 2009 after a comprehensive and competitive Request for Qualifications process.

PFM has a long history as a governmental financial advisory firm, and a history of more than 25 years providing investment advice and portfolio management for government and not-for-profit organizations, corporations, pension funds and other institutions. PFM manages both pooled investment funds and individual client portfolios. PFM also had a significant involvement in the creation of the Investment Policy.

PROPOSED AMENDMENTS: The following is a general discussion of the amendments made to the Investment Policy.

Format. The Investment Policy is generally modeled after the Government Finance Officers Association's (GFOA) Sample Investment Policy. GFOA is a professional association of state, provincial, and local government finance officers in the United States and Canada that promotes the professional management of governments for the public benefit through the development of financial policies and practices. No changes were made to the overall format of the Investment Policy other than minor edits that were made to section headings.

Section 1.0—Policy. Minor amendments are proposed to this section to clarify that funds are either deposited or invested.

Section 2.0—Scope. Amendments are proposed to this section to more clearly reflect the funds that are subject to the Investment Policy and whether such funds are held in the State Treasury or with bond trustees. Additionally, a description of the deposit and investment of bond funds under the direction of the I-Bank was added (Other Bonds Directed Investments).

Section 3.0—Objectives. Amendments are proposed to this section to reflect the source of the Legislature's overarching policy guidance on the investment of public funds, and to update the safety objective with language from the GFOA Sample Investment Policy that mitigation measures apply to both credit and interest rate risks.

Section 4.0—Prudence. An amendment to this section is proposed to clarify that the Executive Director is the sole person delegated by the Board to make I-Bank investment decisions.

Section 5.0—Delegation of Authority. Amendments are proposed to this section to clarify the Executive Director's existing responsibilities for making investment decisions. These amendments further clarify the duties of the internal investment advisory committee and the designation by the Executive Director of certain I-Bank staff to perform the day-to-day funds management operations of the I-Bank, and, if appropriate, the I-Bank's external investment advisor.

Section 6.0—Internal Controls. Minor clarifying amendments are proposed to more accurately reflect the Executive Director’s ultimate responsibility for investment activities, including those undertaken by the external investment advisor.

Section 7.0—Ethics and Conflicts of Interests. The proposed amendments to this section clarify that the Executive Director, the investment advisory committee, I-Bank employees and external investment advisors are to operate under all applicable ethics guidelines in undertaking their respective investment-related tasks.

Section 8.0—Authorized Financial Institutions, Depositories, and Broker/Dealers. Proposed amendments in this section involve a reorganization of the presentation of information and clarifying changes regarding the deposit of funds in qualified public depositories as established by State law. Additionally, references were deleted to the number of bids to be obtained for investment agreements, and amended to permit the I-Bank to address changes in the market while remaining within the authority of Federal tax law, as advised by I-Bank’s tax counsel (either bond counsel or the I-Bank’s special counsel, as applicable).

Section 9.0—Safekeeping and Custody. Minor amendments are proposed to this section to clarify, consistent with applicable statutes, that safekeeping funds are invested with third party financial institutions (not solely banks), and that funds will only be held in permitted money market mutual funds and structured investments.

Section 10.0—Authorized Investments and Deposits—I-Bank Investment Funds in the State Treasury. The proposed amendments to this section more closely reflect the language of the sections of the I-Bank Act that authorize the deposit and investment of the CIEDB Fund or the Guarantee Trust Funds.

Section 11.0—Authorized Investments and Deposits—I-Bank Investment Funds held by Bond Trustees Outside the State Treasury. The amendments proposed to this section involve clarifying the existing authorization for funds that are the proceeds of bonds or are set aside and pledged to secure the payment of bonds that are within the scope of the Investment Policy and that are held outside of the State Treasury to be invested as directed by the applicable bond indenture, trust agreement or similar agreement entered into pursuant to a resolution of the Board. As such, it is proposed that Exhibits C and D (Permitted Investment definitions from 2004 and 2005 Infrastructure State Revolving Fund Program Bonds and the 2005 State School Fund apportionment Lease Revenue Bonds), which simply restate the provisions of trust agreements and indentures already entered into by the I-Bank, be deleted.

Additionally, an amendment is proposed to this section to clarify that monies in either the CIEDB Fund or the Guarantee Trust Fund that are also proceeds of bonds or are set aside and pledged to secure payment of bonds and are thus held outside the State Treasury shall be invested in investments permitted for those funds held in the State Treasury, absent specific investment directions in applicable bond documents.

Section 12.0—Prohibited Investments. Minor clarifying amendments are proposed to this section, which continue to reflect that all investments or deposits must be in compliance with either Sections 10 or 11 of the Investment Policy, notwithstanding the existence of other general legal authority that would permit such investment, unless otherwise approved by prior action of the Board.

Section 13.0—Maximum Maturities. Minor clarifying amendments are being proposed to this section, which continue to reflect a maximum maturity for most investments or collateral security of not longer than five years or as otherwise approved by the Board, or as deemed prudent by the Executive Director.

Section 14.0—Credit Criteria. A proposed amendment to this section clarifies that the reporting obligation of the Executive Director extends not only to the reduction in rating of investments below those specified in the Investment Policy, but to those reflected in a bond indenture which guides the investment of funds, which is consistent with current reporting practices. Other minor clarifying amendments are also proposed.

Section 15.0—Performance. A minor amendment is proposed to this section to delete language regarding the Executive Director's quarterly report as redundant to language in the next section. Other minor clarifying amendments are also proposed.

Section 16.0—Reportings. Minor amendments are proposed to this section to reflect current reporting practices.

Section 17.0—Policy Adoption. No proposed amendments to this section.

Exhibit A. Amendments are proposed to conform the exhibit to the current Government Code section, and to set forth a definition for portfolio for which the limitations to certain kinds of investments apply. Additionally, minor amendments are proposed for investments (i) and (l) to ensure sufficient liquidity in the portfolio.

Exhibit B. The proposed amendments summarize the investment requirements of Government code section 63062(a).

Exhibits C and D. These two exhibits set forth the permitted investments of funds related to the 2005 and 2005 Infrastructure State Revolving Fund Program Bonds and the 2005 State School Fund Apportionment Lease Revenue Bonds. Staff is proposing to delete these exhibits as explained above.

RECOMMENDATION: Staff recommends approval of Resolution 10-19 approving the Investment Policy dated April 27, 2010.

ATTACHMENT 1

PROPOSED INVESTMENT POLICY AMENDMENTS

**CALIFORNIA INFRASTRUCTURE AND
ECONOMIC DEVELOPMENT BANK**

INVESTMENT POLICY

Dated ~~March 28, 2006~~ April 27, 2010

**California Infrastructure and Economic Development Bank
Investment Policy**

Table of Contents

Section	Page
1.0 Policy.....	1
2.0 Scope.....	1
3.0 Objectives.....	1
4.0 Prudence.....	2
5.0 Delegation of Authority.....	2
6.0 Internal Controls.....	<u>23</u>
7.0 Ethics and Conflicts of Interest.....	<u>23</u>
8.0 Authorized Financial Dealers and Institutions, <u>Depositories and Broker/Dealers</u>	3
9.0 Safekeeping and Custody.....	<u>34</u>
10.0 Authorized and Suitable Investments and Deposits <u>I-Bank Investment</u> Funds in State Treasury.....	<u>34</u>
11.0 Authorized and Suitable Investments Bond and Deposits <u>I-Bank Investment</u> Funds held by Bond Trustees.....	<u>4 Outside the State Treasury</u> <u>5</u>
12.0 Prohibited Investments.....	<u>45</u>
13.0 Maximum Maturities.....	<u>45</u>
14.0 Credit Criteria.....	<u>46</u>
15.0 Performance.....	<u>56</u>
16.0 Reporting.....	<u>56</u>
17.0 Policy Adoption.....	<u>57</u>
Exhibit A – Government Code Section 16430 Permitted Investments.....	A
Exhibit B – Government Code 63062(a) Permitted Investments.....	B
Exhibit C – Infrastructure State Revolving Fund Bonds, Series 2004 and 2005 Permitted Investments.....	C
Exhibit D – State School Fund Apportionment Lease Revenue Bonds, Series 2005 Permitted Investments.....	D

California Infrastructure and Economic Development Bank Investment Policy

1.0 Policy

This Investment Policy and the related Exhibits (collectively, the “Policy”) are intended to provide guidelines for the prudent investment of funds authorized to be deposited or invested by the California Infrastructure and Economic Development Bank (~~“(I-Bank”) funds~~) and outline the policies for maximizing the efficiency of the I-Bank’s cash management system. The ultimate goal is to enhance the I-Bank’s financial return consistent with the prudent protection of the I-Bank’s investments while conforming to all applicable state statutes governing the investment of these public funds.

2.0 Scope

It is intended that this Policy cover the deposit or investment of monies in the following funds ~~and accounts:~~

- Monies in or belonging to the California Infrastructure and Economic Development Bank Fund (~~“(I-Bank-(CIEDB Fund”) and the California Infrastructure Guarantee Trust Fund (”Guarantee Trust Fund”), which).~~
 - Includes monies that are held in the State of California’s (~~“(State”) centralized treasury system (”State Treasury”), accounts related to the).~~ but does not include monies annually appropriated by the Legislature to the Business, Transportation and Housing Agency, which include funds for the annual administration of the I-Bank and certain local assistance activities.
 - Includes monies that are held by the trustee of the Infrastructure State Revolving Fund (~~“(ISRF”) Program Revenue Bonds (”ISRF Program Bonds”), which).~~
- Monies in or belonging to the California Infrastructure Guarantee Trust Fund (Guarantee Trust Fund).
 - Includes monies that are held ~~by a bond trustee in the State Treasury, and for monies that may be held by the trustee of any other bond funds for which bonds guaranteed by the I-Bank is responsible for directing~~ (Guarantee Trust Fund Bonds).
- Monies the investment of ~~funds~~ which is directed by the I-Bank (Other Bonds Directed Investments).
 - Includes monies held by trustees for other bonds issued by the I-Bank that are to be invested at the direction of the I-Bank, such as ~~the accounts~~ those related to the State School Fund Apportionment Lease Revenue ~~-Bonds (”School Bonds”).~~

~~The~~This Policy ~~is does not intended to~~ cover the deposit or investment of funds of ~~other~~ entities for which the I-Bank serves as the conduit issuer of bonds ~~on their behalf.~~

3.0 Objectives

The overall program shall be designed and managed with a degree of professionalism worthy of the public trust. The Consistent with Government code Section 53600.5¹, which establishes investment objectives for municipal entities, the primary objectives, in order of priority, of the I-Bank's investment activities shall be:

1) Safety. Safety of principal is the foremost objective of the investment program. The I-Bank's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio through the mitigation of credit risk and interest rate risk. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

2) Liquidity. The I-Bank's investments will remain sufficiently liquid to enable the I-Bank to meet reasonably anticipated cash flow requirements.

3) Return on Investment. The I-Bank seeks to optimize the yield on its investments, consistent with constraints imposed by its safety and liquidity objectives.

4.0 Prudence

~~All persons~~The Executive Director, as the individual authorized to make investment decisions on behalf of the I-Bank ~~are fiduciaries and are to~~shall be held to the prudent investor standard applicable to California municipal entities: "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."²

5.0 Delegation of Authority

Consistent with its authority under Government Code Sections 63023(a), (b) and (g), 63025.1(v), 63052, and 63062, and pursuant to Resolution ~~06-1310-19~~ adopted by the I-Bank Board of Directors (~~"(Board?)~~), the Executive Director is authorized to deposit and invest those funds that are within the scope of this Investment Policy as set forth in Section 2.0 (collectively, the I-Bank- Investment Funds). The Executive Director shall assume full responsibility for those transactions until the delegation of authority is revoked by the Board. The Executive Director shall determine when it is appropriate to use the services of an external investment advisor to provide funds

¹ Government Code section 53600.5 establishes overall objectives for investment by local government entities. While this section does not specifically apply to the I-Bank, it articulates the Legislature's overarching policy guidance on the investment of public funds: "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control."

² Government Code section 53600.3.

management and advisory services to the I-Bank based on the complexity or uniqueness of the investment or complexities resulting from market conditions (such as a disruption in a particular type of security).

An internal investment advisory committee consisting of the The Assistant Executive Director and at least two I-Bank managers, along with an external investment advisor, shall constitute the Investment Advisory Committee, and shall advise the Executive Director regarding investments-the deposit, investment and management of the I-Bank's investments.

The Bank Investment Funds. Upon the request of the Executive Director, an external investment advisor may delegate the day-to-day investment operations to designated staff also advise the internal investment advisory committee and the Executive Director regarding the deposit, investment and management of the I-Bank Investment Funds. The Executive Director, designated staff and external investment advisor, if any, shall make all deposit and investment decisions and transactions in strict accordance with applicable State law, and this Policy, and such any other written instructions as are subsequently adopted by the Board.

The Executive Director shall designate certain staff members and, when authorized, an external investment advisor to perform the day-to-day funds management operations of the I-Bank. All deposits and investments shall be made in strict accordance with the deposit and investment decisions of the Executive Director.

6.0 -Internal Controls

The Executive Director shall be responsible for all transactions undertaken by the I-Bank's staff or its external investment advisor, and shall establish a system of controls to regulate the activities of internal staff and any external investment advisors. No person may engage in any deposit or investment transaction pertaining to the I-Bank Investment Funds except as provided under the terms of this Policy and the control procedures established by the Executive Director.

7.0 Ethics and Conflicts of Interest

Consistent The Executive Director, the members of the Advisory Committee, and I-Bank employees and investment advisors involved in funds management operations shall operate in a manner that is consistent with applicable conflict of interest and incompatible activity provisions, I-Bank employees involved in the investment process laws of the State and any statements of incompatible activities enacted by the Business, Transportation and Housing Agency and the I-Bank that applies to them. They shall refrain from personal business activities that could conflict with the proper execution of the investment funds management program, or which could impair their ability to make impartial investment decisions. —, advise on investment decisions, or perform their fund management activities impartially, as applicable.

8.0 Authorized Financial ~~Dealers and~~ Institutions, Depositories, and Broker/Dealers

~~For any bond related funds that are outside of the State Treasury, a competitive bid process shall be used to place any investment transactions. A minimum of three bids or offers shall be obtained for each transaction, whenever practical and possible. It shall be the I-Bank's policy to when engaging directly in the purchase or sale of securities to do so only with properly licensed institutions and firms that have been approved by the State Treasurer's Office. No deposit of public funds shall be made except in a qualified public depository as established by State law. (STO). If an external investment advisor is authorized to conduct investment transactions on the I-Bank's behalf, the investment advisor shall use their own list of approved broker/dealers and financial institutions for investment purposes.~~

All deposits made by the I-Bank or its external investment advisor shall be made in qualified public depositories as established by State law.

For any bond related funds that are outside of the State Treasury, a competitive bid process which counsel to the I-Bank advises is in compliance with Federal Tax law shall be used to place any guaranteed investment agreement, repurchase agreement, reverse repurchase agreement or similar investment transaction.

9.0 – Safekeeping and Custody

All security transactions entered into by the I-Bank shall be conducted on a delivery-versus-payment basis. ~~to ensure that securities are deposited in an eligible financial institution prior to the release of funds.~~

All cash and securities in the I-Bank's portfolio shall be held ~~in~~for safekeeping in the I-Bank's name by a third party ~~bank~~financial institution trust department, acting as agent for the I-Bank under the terms of a custody agreement executed by the ~~bank~~third party financial institution and the I-Bank. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) funds ~~in the I-Bank Fund or Guarantee Trust Fund that are~~ held in the State Treasury, (ii) ~~permitted~~ money market mutual funds, and (iii) ~~permitted~~ structured investment products used for bond fund investments, ~~since these securities which by their terms~~ are not deliverable. Evidence of each of these investments will be maintained by the I-Bank's Executive Director.

10.0 Authorized ~~and Suitable~~ Investments – and Deposits – I-Bank Investment Funds in the State Treasury

~~I-Bank CIEDB Fund.~~ In accordance with Government Code Section 63052(d), ~~as to I-Bank Investment Funds held in the CIEDB Fund within the State Treasury,~~ the I-Bank may ~~direct:~~

- ~~Direct the State Treasurer's Office ("STO") to invest the such I-Bank Fund in the State's Surplus Money Investment Fund ("SMIF"), a State investment fund which is administered by the STO under the direction of the Pooled Money Investment Board. There is no limitation as to the percentage of the portfolio Funds that may be invested in the SMIF. Alternatively, the I Bank may direct the STO to invest the I Bank Fund are not required for its current needs in any eligible securities security specified in Government Code Section section 16430 (see the terms of which are set forth in Exhibit A). Within the to~~

~~this Policy) provided that such investments permitted by Government Code Section 16430, the I-Bank seeks to provide additional criteria to further restrict eligible investments. This additional criteria is shown shall be limited as provided in the underlined text in Exhibit A. Purchases. The percentage holding limits set forth in Exhibit A are to be applied at the time of purchase. In addition to the direction as to percentages set forth in Exhibit A, purchases of individual securities shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Percentage holding limits listed in this section are applied at the time of purchase.~~

- Direct the STO to deposit such I-Bank Investment Funds in any interest-bearing accounts in any bank or savings and loan association in California.
- Require the transfer of funds to the State's Surplus Money Investment Fund (SMIF), a State investment fund which is managed by the STO under the direction of the Pooled Money Investment Board for investment pursuant to Article 4 (commencing with Section 16470) of Chapter 3 of Part 2 of Division 4 of Title 2 of the Government Code. There is no limitation as to the percentage of the funds in the CIEDB Fund that may be invested in the SMIF.

Guarantee Trust Fund. In accordance with Government Code 63062(a) and (b), ~~the~~ as to I-Bank may direct the STO to invest Investment Funds held in the Guarantee Trust Fund in SMIF or within the State Treasury, the I-Bank may:

- Direct the STO to invest such I-Bank Investment Funds that are not required for its current needs in any eligible securities security specified in Government Code Section 16430 that are consistent with the additional criteria subject to the percentage limitations shown as underlined text in Exhibit A. Additionally, the I-Bank may direct
- Direct the STO to deposit such I-Bank Investment Funds in any interest-bearing accounts in any bank or savings and loan association in California.
- Direct the STO to invest the Guarantee Trust Fund such I-Bank Investment Funds in any other eligible securities listed in Government Code Section 63062(a)(see) as set forth in Exhibit B). Within the investments permitted by Government Code Section 63062(a), the I-Bank seeks to provide additional criteria to further restrict eligible investments. This additional criteria is shown as underlined text in Exhibit B.
- Require the transfer of such I-Bank Investment Funds to SMIF. There is no limitation as to the percentage of the funds in the Guarantee Trust Fund that may be invested in the SMIF.

11.0 Authorized and Suitable Investments — Bond and Deposits — I-Bank Investment Funds held by Bond Trustees Outside the State Treasury

~~Bond funds shall be invested in~~ In accordance with the provisions of each bond indenture as authorized by Government Code Sections 63052(e), 63062(b) and 5922(d) and as to I-Bank Investment Funds that are proceeds of bonds or are set aside and pledged to secure payment of bonds and are held by bond trustees³, the I-Bank may:

- Direct the deposit or investment of such I-Bank Investment Funds in accordance with the provisions of the applicable bond indenture, trust agreement or other similar agreement

³ Including the investment of certain funds pertaining to ISRF Program Bonds and Other Bonds Directed Investments.

~~entered into pursuant to a resolution of the Board. Eligible investments permitted by the 2004 and 2005 ISRF Bonds Series Indenture and 2005 School Bonds Trust Agreement are listed in Exhibits C and D, respectively. In the event an apparent discrepancy is found between this Policy and~~

- ~~• When the provisions of the applicable bond indenture, the more restrictive parameters will take precedence trust agreement or other similar agreement entered into pursuant to a resolution of the Board are silent as to the investment of funds, direct the deposit or investment of such I-Bank Investment Funds that belong to the CIEDB Fund or the Guarantee Trust Fund as authorized in Section 10.0 above.~~

12.0 Prohibited Investments

Any investment ~~in a security or deposit~~ not specifically ~~listed in~~ authorized pursuant to Section 10.0 or 11.0 above, ~~(including the related Exhibits, A and B referenced therein),~~ but otherwise permitted by law, is prohibited ~~without the~~ unless otherwise approved by prior ~~approval~~ action of the Board. ~~This Policy further specifically disallows investments~~ Investments in inverse floaters, range notes, 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 are specifically disallowed.

13.0 Maximum Maturities

It is the objective of the I-Bank to accurately monitor and forecast revenues and expenditures so that the I-Bank can invest funds to the fullest extent possible. Funds of the I-Bank will be invested in accordance with sound treasury management principles.

~~Where this Policy does not specify a maximum remaining maturity at the time of the investment, no~~ No investment shall be made in any security, other than a collateral security underlying a repurchase agreement or collateral for ~~any~~ permitted investment agreement, that at the time of the investment has a term remaining to maturity in excess of five years, unless otherwise authorized herein or the Board has granted express authority to make that investment ~~either specifically or as a part of or has authorized~~ an investment program ~~approved by the Board prior~~ of a longer maturity that is applicable to ~~the~~ such investment.

~~With respect to maximum maturities,~~ Notwithstanding the ~~Policy authorizes investing prior~~ paragraph, bond reserve funds and bond revenue funds may be invested beyond five years if prudent in the opinion of the Executive Director.

14.0 Credit Criteria

In the event a security ~~held by them~~ which I-Bank funds are invested is subject to a rating change that brings it below the minimum credit ratings specified in ~~the~~ this Policy or the applicable bond indenture or other applicable bond document, the Executive Director shall notify the Board of the change at their next regularly scheduled meeting. ~~The course of action to be followed will then be decided along with the funds management decision taken or proposed to be taken. Such funds~~

management decisions will be made by the Executive Director on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rating drops, and the market price of the security.

15.0 Performance

For ~~surplus~~ funds held in the State Treasury, the I-Bank seeks to attain market rates of return on its investments throughout economic cycles, consistent with constraints imposed by its safety and liquidity objectives. ~~For any funds not invested in SMIF, the Executive Director shall monitor and report the portfolio's performance in the Executive Director's quarterly report (described in 16.0 below).~~

For funds held by bond ~~fund~~ trustees, the I-Bank seeks to optimize the return on its investments consistent with constraints imposed by its safety and liquidity objectives, arbitrage rebate regulations, and market conditions.

16.0 Reporting

The Executive Director shall submit a monthly deposit and investment transaction report and a quarterly investment report ~~on the I-Bank's investments~~ to the Board. Except for funds invested in SMIF, the quarterly 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 investment report shall also ~~state compliance of the portfolio~~ identify whether any investment fails to comply with this Policy, or manner in which the portfolio is not in and the plan for bringing that investment into compliance, and include a statement denoting the ability of the I-Bank 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 quarterly investment report shall be submitted ~~within~~ the later of 30 days following the end of the month covered by the report, ~~or the next scheduled I-Bank Board meeting.~~

~~For bond funds, the~~ The Executive Director shall monitor the status of ~~each bond issue~~ the funds held by the trustees for the ISRF Program Bonds and any I-Bank Other Bonds Directed Investments to ensure that each issue's arbitrage rebate status is tracked and reported in compliance with the provisions of the Internal Revenue Code and related Treasury Regulations.

17.0 Policy Adoption

This Policy shall be reviewed annually by the Board. Any change in the Policy shall be reviewed and approved by the Board at a regularly scheduled meeting.

Exhibit A
Government Code 16430 Permitted Investments

Note: the underlined text represents additional criteria established by the I-Bank that is not listed in Government Code Section 16430.

Government Code Section 16430:

- a. Bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio⁴ that may be invested in this category.
- b. Bonds or interest-bearing notes on obligations that are guaranteed as to principal and interest by a federal agency of the United States. There is no limitation as to the percentage of the portfolio that may be invested in this category; however, the amount invested in any one issuer, including related entities, may not exceed 30 percent of the portfolio.
- c. Bonds, notes and notes/warrants of this state, or those for which the faith and credit of this state are pledged for the payment of principal and interest. A maximum of 30 percent of the portfolio may be invested in this category.
- d. Bonds or warrants, including, but not limited to, revenue warrants, of any county, city, metropolitan water district, California water district, California water storage district, irrigation district in the state, municipal utility district, or school district of this state. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested with any one issuer, including related entities, shall not exceed 10 percent of the portfolio.
- e. Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, ~~in~~ (12 U.S.C. Sec. 2001 et seq.), debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended; (12 U.S.C. Sec. 2001 et seq.), in bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act; (12 U.S.C. Sec. 1421 et seq.), in stock, bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act as amended, ~~and in the~~ (12 U.S.C. Sec. 1701 et seq.), and bonds of any federal home loan bank established under that act, obligations of the Federal Home Loan Mortgage Corporation, in bonds, notes, and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act as amended, ~~and bonds, notes,~~ (16 U.S.C. Sec. 831 et seq.), and other obligations guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act as amended; (15 U.S.C. Sec. 714 et seq.). There is no limitation as to the percentage of the portfolio that may be invested in this category;

⁴ A "portfolio" means all monies in a fund, such as the CIEDB Fund or the Guarantee Trust Fund, or individual bond issuances related to I-Bank Other Bonds Directed Investments.

however, the amount invested in any one issuer, including related entities, may not exceed 30 percent of the portfolio.

- f. (1) Commercial paper of "prime" quality as defined by a nationally recognized organization that rates these securities. ~~Eligible, if the commercial~~ paper is ~~further limited to issuing corporations, trusts~~ issued by a corporation, trust, or limited liability ~~companies~~ company that ~~is~~ approved by the Pooled Money Investment Board that meet the conditions in either subparagraph (A) or subparagraph (B):

- (A) Both of the following: (i) Organized and operating within the United States. (ii) Having total assets in excess of five hundred million dollars (\$500,000,000).

- (B) Both of the following ~~conditions~~: (i) Organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) Having program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.

- (2) ~~Purchases~~ Purchase of eligible commercial paper may not exceed 180 days' maturity, represent more than 10 percent of the outstanding paper of an issuing corporation, trust, or limited liability company, ~~nor~~ exceed 30 percent of the resources of an investment program. At the request of the Pooled Money Investment Board, this investment shall be secured by the issuer by depositing with the Treasurer securities authorized by Section 53651 of a market value at least 10 percent in excess of the amount of the state's investment. The amount invested in commercial paper of any one issuer in combination with any other securities from that issuer, including related entities, shall not exceed 10 percent of the portfolio.

- g. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, ~~which~~ that are eligible for purchase by the Federal Reserve System. A maximum of 40 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, including related financial institutions, shall not exceed 10 percent of the portfolio.

- h. Negotiable certificates of deposits issued by a federally or state-chartered bank or savings and loan association, a state-licensed branch of a foreign bank, or a federally or state-chartered credit union. For the purposes of this section, negotiable certificates of deposits ~~do~~ not ~~come within the provisions of~~ subject to Chapter 4 (commencing with Section 16500) and Chapter 4.5 (commencing with Section 16600). The amount invested in negotiable certificates of deposits with any one financial institution in combination with any other securities from that financial institution, including related financial institutions, shall not exceed 10 percent of the portfolio.

- i. The portion of bank loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration. A maximum of 2510 percent of the portfolio may be invested in this category.

- j. Bank loans and obligations guaranteed by the Export-Import Bank of the United States. A maximum of 10 percent of the portfolio may be invested in this category.

- k. Student loan notes insured under the Guaranteed Student Loan Program established pursuant to the Higher Education Act of 1965, as amended (20 U.S.C. Sec. 1001 and following) and eligible for resale to the Student Loan Marketing Association established pursuant to Section 133 of the Education Amendments of 1972, as amended (20 U.S.C. Sec. 1087-2). A maximum of 10 percent of the portfolio may be invested in this category.

- l. Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation, or the Government Development Bank of Puerto Rico. ~~The amount invested in any one issuer may not exceed~~ A maximum of 10 percent of the portfolio may be invested in this category.

- m. Bonds, debentures, and notes issued by corporations organized and operating within the United States. Securities eligible for investment under this subdivision shall be within the top three ratings of a nationally recognized rating service. A maximum of 30 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, including related entities, shall not exceed 10 percent of the portfolio.

- n. Negotiable Order of Withdrawal Accounts (NOW Accounts), invested in accordance with Chapter 4 (commencing with Section 165500).

Exhibit B
Government Code 63062(a) Permitted Investments

Note: the underlined text represents additional criteria established by the I-Bank that is not listed in Government Code Section 16430.

Government Code 63062(a): (in part):

The I-Bank may, ~~from time to time, direct the Treasurer to invest moneys in the guarantee trust fund that are not required for its current needs in any eligible securities specified in Section 16430 that the bank shall designate. The amount invested in any eligible security shall not exceed the limits permitted under Appendix A. The I-Bank may direct the Treasurer to invest the moneys by direct the Treasurer to invest monies:~~

- By entering into repurchase agreements or reverse repurchase agreements, which, for purposes of this section, shall mean agreements for the purchase or sale of eligible securities pursuant to which the seller or buyer agrees to repurchase or sell back the securities on or before a specified date and for a specified amount. ~~The I-Bank may direct the Treasurer to invest the moneys in;~~
- In the subordinated securities of the ~~bank~~I-Bank, a special purpose trust, or a sponsor. ~~The I-Bank may direct the Treasurer to invest the moneys in; or~~
- In investment agreements with corporations, financial institutions, or national associations within the United States that are rated by a nationally recognized rating service within the top three rating categories of the service. For purposes of this section, investment agreements shall mean any agreement for the investment of ~~moneys in the guarantee trust fund~~moneys whether at fixed or variable interest rates, and may include, but not be limited to, repurchase agreements, notes, uncollateralized time deposits, certificates of deposit, and the subordinated securities of the ~~bank, a special purpose trust, or a sponsor. The I-Bank may direct the Treasurer to deposit moneys in interest-bearing accounts in state or national banks or other financial institutions having principal offices in this state. Investments types permitted under Government Code 63062(a), but not otherwise specified in Section 16430, shall meet the minimum criteria for purchase as required under the relevant section in Exhibit D.~~I-Bank, a special purpose trust, or a sponsor.

Exhibit C
Infrastructure State Revolving Fund Revenue Bonds
Permitted Investments per Series 2004 and 2005 Indentures

~~“Permitted Investments” means any of the following, if and to the extent the same are at the time legal for investment of funds held under this Series Indenture:~~

- ~~a. Bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.~~
- ~~b. Bonds or interest-bearing notes or obligations that are guaranteed as to principal and interest by a federal agency of the United States.~~
- ~~c. Bonds and notes of the State, or those for which the faith and credit of the State are pledged for the payment of principal and interest, provided that the ratings of such bonds and notes of the State are rated within the top three rating categories, ignoring modifiers, by S&P, Moody’s and Fitch, if rated by Fitch.~~
- ~~d. Bonds or warrants, including, but not limited to, revenue warrants, of any county, city, metropolitan water district, State water district, State water storage district, irrigation district in the State, municipal utility district, or school district of the State, provided that the ratings of such bonds or warrants are rated within the top three rating categories, ignoring modifiers, by S&P, Moody’s and Fitch, if rated by Fitch.~~
- ~~e. Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, in debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended, in bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, in stock, bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act as amended, and in the bonds of any federal home loan bank established under that act, obligations of the Federal Home Loan Mortgage Corporation, in bonds, notes, and other obligations issued by the Tennessee Valley Issuer under the Tennessee Valley Act as amended, and bonds, notes, and other obligations guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act as amended.~~
- ~~f. Commercial paper rated within the top two rating categories, ignoring modifiers, by S&P, Moody’s and Fitch, if rated by Fitch. Eligible paper is further limited to issuing corporations or trusts approved by the State of California Pooled Money Investment Board that meet the conditions in either subparagraph (A) or subparagraph (B):~~
 - ~~(A) Both of the following: (i) Organized and operating within the United States. (ii) Having total assets in excess of five hundred million dollars (\$500,000,000).~~

~~(B) Both of the following: (i) Organized within the United States as a special purpose corporation or trust. (ii) Having program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond:~~

~~—Purchases of eligible commercial paper may not exceed 180 days' maturity, represent more than 10 percent of the outstanding paper of an issuing corporation or trust, nor exceed 30 percent of the resources of an investment program. At the request of the State of California Pooled Money Investment Board, the investment shall be secured by the Issuer by depositing with the State Treasurer securities authorized by California Government Code Section 53651 having a market value at least 10 percent in excess of the amount of the state's investment.~~

~~g. Bills of exchange or time drafts drawn on and accepted by a commercial bank rated in the top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch, otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System.~~

~~h. Negotiable certificates of deposits issued by a federally or state-chartered bank or savings and loan association, a state-licensed branch of a foreign bank, or a federally or state-chartered credit union rated in the top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch. For the purposes of this definition, negotiable certificates of deposits do not come within the provisions of Chapter 4 (commencing with Section 16500) and Chapter 4.5 (commencing with Section 16600) of the California Government Code.~~

~~i. The portion of bank loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration.~~

~~j. Bank loans and obligations guaranteed by the Export-Import Bank of the United States.~~

~~k. Student loan obligations insured under the Guaranteed Student Loan Program established pursuant to the Higher Education Act of 1965, as amended (20 U.S.C. Sec. 1001 and following) with debt rated in the top three rating categories by S&P, Moody's and Fitch, if rated by Fitch and eligible for resale to the Student Loan Marketing Association established pursuant to Section 133 of the Education Amendments of 1972, as amended (20 U.S.C. Sec. 1087-2).~~

~~l. Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation, or the Government Development Bank of Puerto Rico and rated in the top three rating categories by S&P, Moody's and Fitch, if rated by Fitch.~~

~~m. Bonds, debentures, and notes issued by corporations organized and operating within the United States. Securities eligible for investment under this subdivision (m) shall be within the top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch.~~

- ~~n. The California State Surplus Money Investment Fund established pursuant to California Government Code Section 16470, as amended from time to time.~~
- ~~o. Repurchase agreements with entities rated in top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch.~~
- ~~p. Investments or other contractual arrangements with corporations, financial institutions or national associations within the United States, provided that the senior long-term debt of such corporations, institutions or associations or any guarantor of the debt of such corporations, institutions, or associations ("providers"), is rated within the top two rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch; or such investments or other contractual arrangements are collateralized by Permitted Investments of the type and in the amounts consistent with maintaining the then-current ratings on the 2005 Bonds by each of the Rating Agencies, but in all events the senior long-term debt of such providers shall be rated in the top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch.~~
- ~~q. Forward purchase agreements collateralized with obligations described in (a) through (d) above with corporations, financial institutions or national associations within the United States rated in the top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch.~~
- ~~r. Money market funds including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee or such holding company provide investment advisory or other management services rated in the top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch.~~

Exhibit D
State School Fund Apportionment Lease Revenue Bonds
Permitted Investments per Indenture

~~“Permitted Investments” means any of the following that at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (provided that the Trustee may rely upon investment direction of the I-Bank as a determination that such investment is a legal investment):~~

- ~~1. Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America (“U.S. Government Securities”).~~
- ~~2. Direct obligations of the following federal agencies which are fully guaranteed by the full faith and credit of the United States of America:~~
 - ~~(a) Export-Import Bank of the United States — Direct obligations and fully guaranteed certificates of beneficial interest~~
 - ~~(b) Federal Housing Administration — debentures~~
 - ~~(c) General Services Administration — participation certificates~~
 - ~~(d) Government National Mortgage Association (“GNMAs”) — guaranteed mortgage-backed securities and guaranteed participation certificates~~
 - ~~(e) Small Business Administration — guaranteed participation certificates and guaranteed pool certificates~~
 - ~~(f) U.S. Department of Housing & Urban Development — local authority bonds~~
 - ~~(g) U.S. Maritime Administration — guaranteed Title XI financings~~
 - ~~(h) Washington Metropolitan Area Transit Authority — guaranteed transit bonds~~
- ~~3. Direct obligations of the following federal agencies which are not fully guaranteed by the full faith and credit of the United States of America:~~
 - ~~(i) Federal National Mortgage Association (“FNMA”) — senior debt obligations rated Aaa by Moody’s Investors Service (“Moody’s”) and AAA by Standard & Poor’s Ratings Services (“S&P”)~~
 - ~~(j) Federal Home Loan Mortgage Corporation (“FHLMCs”) — participation certificates and senior debt obligations rated Aaa by Moody’s and AAA by S&P~~
 - ~~(k) Federal Home Loan Banks — consolidated debt obligations~~
 - ~~(l) Student Loan Marketing Association — debt obligations~~

~~(m) Resolution Funding Corporation — debt obligations~~

- ~~4. Direct, general obligations of any state of the United States of America or any subdivision or agency thereof whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P.~~
- ~~5. Commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, P-1 by Moody's and A-1 or better by S&P.~~
- ~~6. Certificates of deposit, savings accounts, deposit accounts or money market deposits in amounts that are continuously and fully insured by the Federal Deposit Insurance Corporation ("FDIC"), including the Bank Insurance Fund and the Savings Association Insurance Fund.~~
- ~~7. Certificates of deposit, deposit accounts, federal funds or bankers' acceptances (in each case having maturities of not more than 365 days following the date of purchase) of any domestic commercial bank or United States branch office of a foreign bank, provided that such bank's short-term certificates of deposit are rated P-1 by Moody's and A-1 or better by S&P (not considering holding company ratings).~~
- ~~8. Investments in money market funds rated AAAm or AAAm-G by S&P.~~
- ~~9. State-sponsored investment pools rated AA or better by S&P.~~
- ~~10. Repurchase agreements that meet the following criteria:
 - ~~(n) A master repurchase agreement or specific written repurchase agreement, substantially similar in form and substance to the Public Securities Association or Bond Market Association master repurchase agreement, governs the transaction.~~
 - ~~(a) Acceptable providers shall consist of (i) registered broker/dealers subject to Securities Investors' Protection Corporation ("SIPC") jurisdiction or commercial banks insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed rating of A3/P-1 or better by Moody's and A-/A-1 or better by S&P, or (ii) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P.~~
 - ~~(b) The repurchase agreement shall require termination thereof if the counterparty's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's, or A or A-1 from S&P. Within ten (10) days, the counterparty shall repay the principal amount plus any accrued and unpaid interest on the investments.~~
 - ~~(c) The repurchase agreement shall limit acceptable securities to U.S. Government Securities and to the obligations of GNMA, FNMA or FHLMC described in 2(d), 3(a) and 3(b) above. The fair market value of the securities in relation to the amount of the~~~~

- ~~repurchase obligation, including principal and accrued interest, is equal to a collateral level of at least 104% for U.S. Government Securities and 105% for GNMA's, FNMA's or FHLMC's. The repurchase agreement shall require (i) the Trustee or the Agent to value the collateral securities no less frequently than weekly, (ii) the delivery of additional securities if the fair market value of the securities is below the required level on any valuation date, and (iii) liquidation of the repurchase securities if any deficiency in the required percentage is not restored within two (2) business days of such valuation.~~
- ~~(d) The repurchase securities shall be delivered free and clear of any lien to the bond trustee (herein, the "Trustee") or to an independent third party acting solely as agent ("Agent") for the Trustee, and such Agent is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the FDIC and which has combined capital, surplus and undivided profits or, if appropriate, a net worth, of not less than \$50 million, and the Trustee shall have received written confirmation from such third party that such third party holds such securities, free and clear of any lien, as agent for the Trustee.~~
- ~~(e) A perfected first security interest in the repurchase securities shall be created for the benefit of the Trustee, and the issuer and the Trustee shall receive an opinion of counsel as to the perfection of the security interest in such repurchase securities and any proceeds thereof.~~
- ~~(f) The repurchase agreement shall have a term of one year or less, or shall be due on demand.~~
- ~~(g) The repurchase agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the repurchase securities, unless the Bond Insurer directs otherwise:~~
- ~~(i) insolvency of the broker/dealer or commercial bank serving as the counterparty under the repurchase agreement;~~
 - ~~(ii) failure by the counterparty to remedy any deficiency in the required collateral level or to satisfy the margin maintenance call under item 10(d) above; or~~
 - ~~(iii) failure by the counterparty to repurchase the repurchase securities on the specified date for repurchase.~~
11. Investment agreements (also referred to as guaranteed investment contracts) that meet the following criteria:
- ~~(a) A master agreement or specific written investment agreement governs the transaction.~~
 - ~~(b) Acceptable providers of uncollateralized investment agreements shall consist of (i) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least Aa2 by Moody's and AA by S&P; (ii) domestic insurance companies rated Aaa by Moody's and AAA by S&P; and (iii) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P.~~

- ~~(c) Acceptable providers of collateralized investment agreements shall consist of (i) registered broker/dealers subject to SIPC jurisdiction, if such broker/dealer has an uninsured, unsecured and unguaranteed rating of A1 or better by Moody's and A+ or better by S&P; (ii) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least A1 by Moody's and A+ by S&P; (iii) domestic insurance companies rated at least A1 by Moody's and A+ by S&P; and (iv) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P. Required collateral levels shall be as set forth in 11(f) below:~~
- ~~(d) The investment agreement shall provide that if the provider's ratings fall below Aa3 by Moody's or AA- by S&P, the provider shall within ten (10) days either (i) repay the principal amount plus any accrued and interest on the investment; or (ii) deliver Permitted Collateral as provided below:~~
- ~~(e) The investment agreement must provide for termination thereof if the provider's ratings are suspended, withdrawn or fall below A3 from Moody's or A- from S&P. Within ten (10) days, the provider shall repay the principal amount plus any accrued interest on the agreement, without penalty:~~
- ~~(f) The investment agreement shall provide for the delivery of collateral described in (i) or (ii) below ("Permitted Collateral") which shall be maintained at the following collateralization levels at each valuation date:~~
- ~~(i) U.S. Government Securities at 104% of principal plus accrued interest; or~~
 - ~~(ii) Obligations of GNMA, FNMA or FHLMC (described in 2(d), 3(a) and 3(b) above) at 105% of principal and accrued interest.~~
- ~~(g) The investment agreement shall require the Trustee or Agent to determine the market value of the Permitted Collateral not less than weekly and notify the investment agreement provider on the valuation day of any deficiency. Permitted Collateral may be released by the Trustee to the provider only to the extent that there are excess amounts over the required levels. Market value, with respect to collateral, may be determined by any of the following methods:~~
- ~~(i) the last quoted "bid" price as shown in Bloomberg, Interactive Data Systems, Inc., The Wall Street Journal or Reuters;~~
 - ~~(ii) valuation as performed by a nationally recognized pricing service, whereby the valuation method is based on a composite average of various bid prices; or~~
 - ~~(iii) the lower of two bid prices by nationally recognized dealers. Such dealers or their parent holding companies shall be rated investment grade and shall be market makers in the securities being valued.~~
- ~~(h) Securities held as Permitted Collateral shall be free and clear of all liens and claims of third parties, held in a separate custodial account and registered in the name of the Trustee or the Agent.~~

~~(i) The provider shall grant the Trustee or the Agent a perfected first security interest in any collateral delivered under an investment agreement. For investment agreements collateralized initially and in connection with the delivery of Permitted Collateral under 11(f) above, the Trustee and the Bond Insurer shall receive an opinion of counsel as to the perfection of the security interest in the collateral.~~

~~(j) The investment agreement shall provide that moneys invested under the agreement must be payable and putable at par to the Trustee without condition, breakage fee or other penalty, upon not more than two (2) business days' notice, or immediately on demand for any reason for which the funds invested may be withdrawn from the applicable fund or account established under the authorizing document, as well as the following:~~

~~(i) In the event of a deficiency in the Debt Service Account;~~

~~(ii) Upon acceleration after an Event of Default;~~

~~(iii) Upon refunding of the Bonds in whole or in part;~~

~~(iv) Reduction of the Reserve Fund Requirement for the bonds; or~~

~~(v) If a determination is later made by a nationally recognized bond counsel that investments must be yield-restricted.~~

~~Notwithstanding the foregoing, the agreement may provide for a breakage fee or other penalty that is payable in arrears and not as a condition of a draw by the Trustee if the issuer's obligation to pay such fee or penalty is subordinate to its obligation to pay debt service on the Bonds and to make deposits to the Reserve Fund.~~

~~(k) The investment agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the investment securities, unless:~~

~~(i) Failure of the provider or the guarantor (if any) to make a payment when due or to deliver Permitted Collateral of the character, at the times or in the amounts described above;~~

~~(ii) Insolvency of the provider or the guarantor (if any) under the investment agreement;~~

~~(iii) Failure by the provider to remedy any deficiency with respect to required Permitted Collateral;~~

~~(iv) Failure by the provider to make a payment or observe any covenant under the agreement;~~

~~(v) The guaranty (if any) is terminated, repudiated or challenged; or~~

~~(vi) Any representation or warranty furnished to the Trustee or the issuer in connection with the agreement is false or misleading.~~

- ~~(f) The investment agreement must incorporate the following general criteria:~~
- ~~(i) “Cure periods” for payment default shall not exceed two (2) business days;~~
 - ~~(ii) The agreement shall provide that the provider shall remain liable for any deficiency after application of the proceeds of the sale of any collateral, including costs and expenses incurred by the Trustee or the Bond Insurer;~~
 - ~~(iii) Neither the agreement or guaranty agreement, if applicable, may be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior consent of the Bond Insurer;~~
 - ~~(iv) If the investment agreement is for the Reserve Fund, reinvestments of funds shall be required to bear interest at a rate at least equal to the original contract rate.~~
 - ~~(v) The provider shall be required to immediately notify the Bond Insurer and the Trustee of any event of default or any suspension, withdrawal or downgrade of the provider’s ratings;~~
 - ~~(vi) The agreement shall be unconditional and shall expressly disclaim any right of set-off or counterclaim;~~
 - ~~(vii) The agreement shall require the provider to submit information reasonably requested by the Bond Insurer, including balance invested with the provider, type and market value of collateral and other pertinent information.~~

~~12. Forward delivery agreements in which the securities delivered mature on or before each Interest Payment Date (for debt service or the Reserve Fund) or draw down date (construction funds) that meet the following criteria:~~

- ~~(a) A specific written investment agreement governs the transaction.~~
- ~~(b) Acceptable providers shall be limited to (i) any registered broker/dealer subject to the Securities Investors’ Protection Corporation jurisdiction, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody’s and A-/A-1 or better by S&P; (ii) any commercial bank insured by the FDIC, if such bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody’s and A-/A-1 or better by S&P; and (iii) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody’s and AAA by S&P.~~
- ~~(c) The forward delivery agreement shall provide for termination or assignment (to a qualified provider hereunder) of the agreement if the provider’s ratings are suspended, withdrawn or fall below A3 or P-1 from Moody’s or A- or A-1 from S&P. Within ten (10) days, the provider shall fulfill any obligations it may have with respect to shortfalls in market value. There shall be no breakage fee payable to the provider in such event.~~
- ~~(d) Permitted securities shall include the investments listed in 1, 2 and 3 above.~~

~~(c) The forward delivery agreement shall include the following provisions:~~

- ~~(i) The permitted securities must mature at least one (1) business day before an Interest Payment Date or scheduled draw. The maturity amount of the permitted securities must equal or exceed the amount required to be in the applicable fund on the applicable valuation date.~~
- ~~(ii) The agreement shall include market standard termination provisions, including the right to terminate for the provider's failure to deliver qualifying securities or otherwise to perform under the agreement. There shall be no breakage fee or penalty payable to the provider in such event.~~
- ~~(iii) Any breakage fees shall be payable only on Interest Payment Dates and shall be subordinated to the payment of debt service on the Bonds and Reserve Fund replenishments.~~
- ~~(iv) The provider must submit at closing a bankruptcy opinion to the effect that upon any bankruptcy, insolvency or receivership of the provider, the securities will not be considered to be a part of the provider's estate, and otherwise acceptable to the Bond Insurer.~~
- ~~(v) The agreement may not be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior written consent of the Bond Insurer.~~

~~13. Forward delivery agreements in which the securities delivered mature after the funds may be required but provide for the right of the issuer or the Trustee to put the securities back to the provider under a put, guaranty or other hedging arrangement, only with the prior written consent of the Bond Insurer; provided that any such investment provider is rated at least A-/A-1 or better by S&P.~~

~~14. Any other investment approved in writing by the Bond Insurer; provided that any such investment provider is rated at least A-/A-1 or better by S&P.~~

ATTACHMENT 2

PROPOSED INVESTMENT POLICY DATED APRIL 27, 2010

**CALIFORNIA INFRASTRUCTURE AND
ECONOMIC DEVELOPMENT BANK**

INVESTMENT POLICY

Dated April 27, 2010

**California Infrastructure and Economic Development Bank
Investment Policy**

Table of Contents

Section	Page
1.0 Policy.....	1
2.0 Scope.....	1
3.0 Objectives.....	1
4.0 Prudence.....	2
5.0 Delegation of Authority.....	2
6.0 Internal Controls.....	3
7.0 Ethics and Conflicts of Interest.....	3
8.0 Authorized Financial, Institutions, Depositories and Broker/Dealers.....	3
9.0 Safekeeping and Custody.....	4
10.0 Authorized Investments and Deposits—I-Bank Investment Funds in State Treasury.....	4
11.0 Authorized Investments and Deposits – I-Bank Investment Funds held by Bond Trustees Outside of the State Treasury.....	5
12.0 Prohibited Investments.....	5
13.0 Maximum Maturities.....	5
14.0 Credit Criteria.....	6
15.0 Performance.....	6
16.0 Reporting.....	6
17.0 Policy Adoption.....	7
Exhibit A – Government Code Section 16430 Permitted Investments.....	A
Exhibit B – Government Code 63062(a) Permitted Investments.....	B

California Infrastructure and Economic Development Bank Investment Policy

1.0 Policy

This Investment Policy and the related Exhibits (collectively, the Policy) are intended to provide guidelines for the prudent investment of funds authorized to be deposited or invested by the California Infrastructure and Economic Development Bank (I-Bank) and outline the policies for maximizing the efficiency of the I-Bank's cash management system. The ultimate goal is to enhance the I-Bank's financial return consistent with the prudent protection of the I-Bank's investments while conforming to all applicable state statutes governing the investment of these public funds.

2.0 Scope

It is intended that this Policy cover the deposit or investment of monies in the following funds:

- Monies in or belonging to the California Infrastructure and Economic Development Bank Fund (CIEDB Fund).
 - Includes monies that are held in the State of California's (State) centralized treasury system (State Treasury), but does not include monies annually appropriated by the Legislature to the Business, Transportation and Housing Agency, which include funds for the annual administration of the I-Bank and certain local assistance activities.
 - Includes monies that are held by the trustee of the Infrastructure State Revolving Fund (ISRF) Program Revenue Bonds (ISRF Program Bonds).
- Monies in or belonging to the California Infrastructure Guarantee Trust Fund (Guarantee Trust Fund).
 - Includes monies that are held in the State Treasury, and monies that may be held by the trustee of any bonds guaranteed by the I-Bank (Guarantee Trust Fund Bonds).
- Monies the investment of which is directed by the I-Bank (Other Bonds Directed Investments).
 - Includes monies held by trustees for other bonds issued by the I-Bank that are to be invested at the direction of the I-Bank, such as those related to the State School Fund Apportionment Lease Revenue Bonds (School Bonds).

This Policy does not cover the deposit or investment of funds of entities for which the I-Bank serves as the conduit issuer of bonds.

3.0 Objectives

The overall program shall be designed and managed with a degree of professionalism worthy of the public trust. Consistent with Government code Section 53600.5¹, which establishes investment objectives for municipal entities, the primary objectives, in order of priority of the I-Bank's investment activities shall be:

- 1) Safety.** Safety of principal is the foremost objective of the investment program. The I-Bank's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio through the mitigation of credit risk and interest rate risk. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.
- 2) Liquidity.** The I-Bank's investments will remain sufficiently liquid to enable the I-Bank to meet reasonably anticipated cash flow requirements.
- 3) Return on Investment.** The I-Bank seeks to optimize the yield on its investments, consistent with constraints imposed by its safety and liquidity objectives.

4.0 Prudence

The Executive Director, as the individual authorized to make investment decisions on behalf of the I-Bank shall be held to the prudent investor standard applicable to California municipal entities: "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."²

5.0 Delegation of Authority

Consistent with its authority under Government Code Sections 63023(a), (b) and (g), 63025.1(v), 63052, and 63062, and pursuant to Resolution 10-19 adopted by the I-Bank Board of Directors (Board), the Executive Director is authorized to deposit and invest those funds that are within the scope of this Investment Policy as set forth in Section 2.0 (collectively, the I-Bank Investment Funds). The Executive Director shall assume full responsibility for those transactions until the delegation of authority is revoked by the Board. The Executive Director shall determine when it is

¹ Government Code section 53600.5 establishes overall objectives for investment by local government entities. While this section does not specifically apply to the I-Bank, it articulates the Legislature's overarching policy guidance on the investment of public funds: "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control."

² Government Code section 53600.3.

appropriate to use the services of an external investment advisor to provide funds management and advisory services to the I-Bank based on the complexity or uniqueness of the investment or complexities resulting from market conditions (such as a disruption in a particular type of security).

The Assistant Executive Director and at least two I-Bank managers shall constitute the Investment Advisory Committee, and shall advise the Executive Director regarding the deposit, investment and management of the I-Bank Investment Funds. Upon the request of the Executive Director, an external investment advisor may also advise the internal investment advisory committee and the Executive Director regarding the deposit, investment and management of the I-Bank Investment Funds. The Executive Director shall make all deposit and investment decisions in strict accordance with applicable State law and this Policy and any other written instructions as are subsequently adopted by the Board.

The Executive Director shall designate certain staff members and, when authorized, an external investment advisor to perform the day-to-day funds management operations of the I-Bank. All deposits and investments shall be made in strict accordance with the deposit and investment decisions of the Executive Director.

6.0 Internal Controls

The Executive Director shall be responsible for all transactions undertaken by the I-Bank's staff or its external investment advisor, and shall establish a system of controls to regulate the activities of internal staff and any external investment advisors. No person may engage in any deposit or investment transaction pertaining to the I-Bank Investment Funds except as provided under the terms of the control procedures established by the Executive Director.

7.0 Ethics and Conflicts of Interest

The Executive Director, the members of the Advisory Committee, and I-Bank employees and investment advisors involved in funds management operations shall operate in a manner that is consistent with applicable conflict of interest and incompatible activity laws of the State and any statements of incompatible activities enacted by the Business, Transportation and Housing Agency and the I-Bank that applies to them. They shall refrain from personal business activities that could conflict with the proper execution of the funds management program, or which could impair their ability to make impartial investment decisions, advise on investment decisions, or perform their fund management activities impartially, as applicable.

8.0 Authorized Financial Institutions, Depositories, and Broker/Dealers

It shall be the I-Bank's policy when engaging directly in the purchase or sale of securities to do so only with properly licensed institutions and firms that have been approved by the State Treasurer's Office (STO). If an external investment advisor is authorized to conduct investment transactions on the I-Bank's behalf, the investment advisor shall use its own list of approved broker/dealers and financial institutions for investment purposes.

All deposits made by the I-Bank or its external investment advisor shall be made in qualified public depositories as established by State law.

For any bond related funds that are outside of the State Treasury, a competitive bid process which counsel to the I-Bank advises is in compliance with Federal Tax law shall be used to place any guaranteed investment agreement, repurchase agreement, reverse repurchase agreement or similar investment transaction.

9.0 Safekeeping and Custody

All security transactions entered into by the I-Bank shall be conducted on a delivery-versus-payment basis to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

All cash and securities in the I-Bank's portfolio shall be held for safekeeping in the I-Bank's name by a third party financial institution trust department, acting as agent for the I-Bank under the terms of a custody agreement executed by the third party financial institution and the I-Bank. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) funds held in the State Treasury, (ii) permitted money market mutual funds, and (iii) permitted structured investment products used for bond fund investments which by their terms are not deliverable. Evidence of each of these investments will be maintained by the I-Bank's Executive Director.

10.0 Authorized Investments and Deposits – I-Bank Investment Funds in the State Treasury

CIEDB Fund. In accordance with Government Code Section 63052(d) as to I-Bank Investment Funds held in the CIEDB Fund within the State Treasury, the I-Bank may:

- Direct the STO to invest such I-Bank Investment Funds that are not required for its current needs in any eligible security specified in Government Code section 16430 (the terms of which are set forth in Exhibit A to this Policy) provided that such investments shall be limited as provided in the underlined text in Exhibit A. The percentage holding limits set forth in Exhibit A are to be applied at the time of purchase. In addition to the direction as to percentages set forth in Exhibit A, purchases of individual securities shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.
- Direct the STO to deposit such I-Bank Investment Funds in any interest-bearing accounts in any bank or savings and loan association in California.
- Require the transfer of funds to the State's Surplus Money Investment Fund (SMIF), a State investment fund which is managed by the STO under the direction of the Pooled Money Investment Board for investment pursuant to Article 4 (commencing with Section 16470) of Chapter 3 of Part 2 of Division 4 of Title 2 of the Government Code. There is no limitation as to the percentage of the funds in the CIEDB Fund that may be invested in the SMIF.

Guarantee Trust Fund. In accordance with Government Code 63062(a) and (b) as to I-Bank Investment Funds held in the Guarantee Trust Fund within the State Treasury, the I-Bank may:

- Direct the STO to invest such I-Bank Investment Funds that are not required for its current needs in any eligible security specified in Government Code Section 16430 subject to the percentage limitations shown as underlined text in Exhibit A.
- Direct the STO to deposit such I-Bank Investment Funds in any interest-bearing accounts in any bank or savings and loan association in California.
- Direct the STO to invest such I-Bank Investment Funds in any other eligible securities listed in Government Code Section 63062(a) as set forth in Exhibit B.
- Require the transfer of such I-Bank Investment Funds to SMIF. There is no limitation as to the percentage of the funds in the Guarantee Trust Fund that may be invested in the SMIF.

11.0 Authorized Investments and Deposits – I-Bank Investment Funds held by Bond Trustees Outside of the State Treasury

In accordance with Government Code Sections 63052(e), 63062(b) and 5922(d) as to I-Bank Investment Funds that are proceeds of bonds or are set aside and pledged to secure payment of bonds and are held by bond trustees³, the I-Bank may:

- Direct the deposit or investment of such I-Bank Investment Funds in accordance with the provisions of the applicable bond indenture, trust agreement or other similar agreement entered into pursuant to a resolution of the Board.
- When the provisions of the applicable bond indenture, trust agreement or other similar agreement entered into pursuant to a resolution of the Board are silent as to the investment of funds, direct the deposit or investment of such I-Bank Investment Funds that belong to the CIEDB Fund or the Guarantee Trust Fund as authorized in Section 10.0 above.

12.0 Prohibited Investments

Any investment or deposit not specifically authorized pursuant to Section 10.0 or 11.0 above (including Exhibits A and B referenced therein), but otherwise permitted by law, is prohibited unless otherwise approved by prior action of the Board. Investments in inverse floaters, range notes, 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 are specifically disallowed.

13.0 Maximum Maturities

It is the objective of the I-Bank to accurately monitor and forecast revenues and expenditures so that the I-Bank can invest funds to the fullest extent possible. Funds of the I-Bank will be invested in accordance with sound treasury management principles.

³ Including the investment of certain funds pertaining to ISRF Program Bonds and Other Bonds Directed Investments.

No investment shall be made in any security, other than a collateral security underlying a repurchase agreement or collateral for any permitted investment agreement, that at the time of the investment has a term remaining to maturity in excess of five years, unless otherwise authorized herein or the Board has granted express authority to make that investment or has authorized an investment program of a longer maturity that is applicable to such investment.

Notwithstanding the prior paragraph, bond reserve funds and bond revenue funds may be invested beyond five years if prudent in the opinion of the Executive Director.

14.0 Credit Criteria

In the event a security in which I-Bank funds are invested is subject to a rating change that brings it below the minimum credit ratings specified in this Policy or the applicable bond indenture or other applicable bond document, the Executive Director shall notify the Board of the change at their next regularly scheduled meeting along with the funds management decision taken or proposed to be taken. Such funds management decisions will be made by the Executive Director on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rating drops, and the market price of the security..

15.0 Performance

For funds held in the State Treasury, the I-Bank seeks to attain market rates of return on its investments throughout economic cycles, consistent with constraints imposed by its safety and liquidity objectives.

For funds held by bond trustees, the I-Bank seeks to optimize the return on its investments consistent with constraints imposed by its safety and liquidity objectives, arbitrage rebate regulations, and market conditions.

16.0 Reporting

The Executive Director shall submit a monthly deposit and investment transaction report and a quarterly investment report to the Board. Except for funds invested in SMIF, the quarterly 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 investment report shall also identify whether any investment fails to comply with this Policy and the plan for bringing that investment into compliance, and include a statement denoting the ability of the I-Bank 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 quarterly investment report shall be submitted the later of 30 days following the end of the month covered by the report, or the next scheduled I-Bank Board meeting.

The Executive Director shall monitor the status of the funds held by the trustees for the ISRF Program Bonds and any I-Bank Other Bonds Directed Investments to ensure that each issue's arbitrage rebate status is tracked and reported in compliance with the provisions of the Internal Revenue Code and related Treasury Regulations.

17.0 Policy Adoption

This Policy shall be reviewed annually by the Board. Any change in the Policy shall be reviewed and approved by the Board at a regularly scheduled meeting.

Exhibit A
Government Code 16430 Permitted Investments

Note: the underlined text represents additional criteria established by the I-Bank that is not listed in Government Code Section 16430.

Government Code Section 16430:

- a. Bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio⁴ that may be invested in this category.
- b. Bonds or interest-bearing notes on obligations that are guaranteed as to principal and interest by a federal agency of the United States. There is no limitation as to the percentage of the portfolio that may be invested in this category; however, the amount invested in any one issuer, including related entities, may not exceed 30 percent of the portfolio.
- c. Bonds, notes and warrants of this state, or those for which the faith and credit of this state are pledged for the payment of principal and interest. A maximum of 30 percent of the portfolio may be invested in this category.
- d. Bonds or warrants, including, but not limited to, revenue warrants, of any county, city, metropolitan water district, California water district, California water storage district, irrigation district in the state, municipal utility district, or school district of this state. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested with any one issuer, including related entities, shall not exceed 10 percent of the portfolio.
- e. Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended (12 U.S.C. Sec. 2001 et seq.), debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended (12 U.S.C. Sec. 2001 et seq.), in bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act (12 U.S.C. Sec. 1421 et seq.), in stock, bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act as amended (12 U.S.C. Sec. 1701 et seq.), and bonds of any federal home loan bank established under that act, obligations of the Federal Home Loan Mortgage Corporation, in bonds, notes, and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act as amended (16 U.S.C. Sec. 831 et seq.), and other obligations guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act as amended (15 U.S.C. Sec. 714 et seq.). There is no limitation as to the percentage of the

⁴ A “portfolio” means all monies in a fund, such as the CIEDB Fund or the Guarantee Trust Fund, or individual bond issuances related to I-Bank Other Bonds Directed Investments.

portfolio that may be invested in this category; however, the amount invested in any one issuer, including related entities, may not exceed 30 percent of the portfolio.

- f. (1) Commercial paper of "prime" quality as defined by a nationally recognized organization that rates these securities, if the commercial paper is issued by a corporation, trust, or limited liability company that is approved by the Pooled Money Investment Board that meet the conditions in either subparagraph (A) or subparagraph (B):
- (A) Both of the following: (i) Organized and operating within the United States. (ii) Having total assets in excess of five hundred million dollars (\$500,000,000).
- (B) Both of the following conditions: (i) Organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) Having program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
- (2) Purchase of eligible commercial paper may not exceed 180 days' maturity, represent more than 10 percent of the outstanding paper of an issuing corporation, trust, or limited liability company, exceed 30 percent of the resources of an investment program. At the request of the Pooled Money Investment Board, this investment shall be secured by the issuer by depositing with the Treasurer securities authorized by Section 53651 of a market value at least 10 percent in excess of the amount of the state's investment. The amount invested in commercial paper of any one issuer in combination with any other securities from that issuer, including related entities, shall not exceed 10 percent of the portfolio.
- g. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, that are eligible for purchase by the Federal Reserve System. A maximum of 40 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, including related financial institutions, shall not exceed 10 percent of the portfolio.
- h. Negotiable certificates of deposits issued by a federally or state-chartered bank or savings and loan association, a state-licensed branch of a foreign bank, or a federally or state-chartered credit union. For the purposes of this section, negotiable certificates of deposits are not subject to Chapter 4 (commencing with Section 16500) and Chapter 4.5 (commencing with Section 16600). The amount invested in negotiable certificates of deposits with any one financial institution in combination with any other securities from that financial institution, including related financial institutions, shall not exceed 10 percent of the portfolio.
- i. The portion of bank loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration. A maximum of 10 percent of the portfolio may be invested in this category.
- j. Bank loans and obligations guaranteed by the Export-Import Bank of the United States. A maximum of 10 percent of the portfolio may be invested in this category.

- k. Student loan notes insured under the Guaranteed Student Loan Program established pursuant to the Higher Education Act of 1965, as amended (20 U.S.C. Sec. 1001 and following) and eligible for resale to the Student Loan Marketing Association established pursuant to Section 133 of the Education Amendments of 1972, as amended (20 U.S.C. Sec. 1087-2). A maximum of 10 percent of the portfolio may be invested in this category.
- l. Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation, or the Government Development Bank of Puerto Rico. A maximum of 10 percent of the portfolio may be invested in this category.
- m. Bonds, debentures, and notes issued by corporations organized and operating within the United States. Securities eligible for investment under this subdivision shall be within the top three ratings of a nationally recognized rating service. A maximum of 30 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, including related entities, shall not exceed 10 percent of the portfolio.
- n. Negotiable Order of Withdrawal Accounts (NOW Accounts), invested in accordance with Chapter 4 (commencing with Section 16550).

Exhibit B
Government Code 63062(a) Permitted Investments

Government Code 63062(a) (in part):

The I-Bank may direct the Treasurer to invest monies:

- By entering into repurchase agreements or reverse repurchase agreements, which, for purposes of this section, shall mean agreements for the purchase or sale of eligible securities pursuant to which the seller or buyer agrees to repurchase or sell back the securities on or before a specified date and for a specified amount;
- In the subordinated securities of the I-Bank, a special purpose trust, or a sponsor; or
- In investment agreements with corporations, financial institutions, or national associations within the United States that are rated by a nationally recognized rating service within the top three rating categories of the service. For purposes of this section, investment agreements shall mean any agreement for the investment of monies whether at fixed or variable interest rates, and may include, but not be limited to, repurchase agreements, notes, uncollateralized time deposits, certificates of deposit, and the subordinated securities of the I-Bank, a special purpose trust, or a sponsor.