ATTACHMENT D - REVISED

Orange County Transportation Authority

2019 Investment Policy

~~February 25~~June 10, 2019

1.~~-~~ PURPOSE

This Investment Policy sets forth the investment guidelines for all funds of the Orange County Transportation Authority (OCTA) invested on and after June~~February~~ 10~~25~~, 2019. The objective of this Investment Policy is to ensure OCTA's funds are prudently invested to preserve capital, provide necessary liquidity and to achieve a market-average rate of return through economic cycles.

Investments may only be made as authorized by this Investment Policy. The OCTA Investment Policy conforms to the California Government Code (the Code) as well as customary standards of prudent investment management. Irrespective of these policy provisions, should the provisions of the Code be or become more restrictive than those contained herein, such provisions will be considered immediately incorporated into the Investment Policy and adhered to.

2. SCOPE

The policy applies to the investment of all funds, excluding the investment of employees' retirement funds and separate trusts. Bond proceeds shall be invested in the securities permitted by the applicable bond documents. If the bond documents are silent as to the permitted investments, the bond proceeds will be invested in the securities permitted by this Policy. Notwithstanding the other provisions of this Policy, the percentage limitations listed in elsewhere in this Policy do not apply to bond proceeds.

3. INVESTMENT OBJECTIVES

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

a. **Safety of Principal** -- Safety of principal is the foremost objective of the OCTA. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institutional default, broker-dealer default, or erosion of market value of the securities.

b. **Liquidity** -- It is important that the portfolio contain investments for which there is an active secondary market, and which offer the flexibility to be easily sold at any time with minimal risk of loss of either the principal or interest based upon then prevailing rates.

c. **Total Return** -- The OCTA's portfolio shall be designed to attain a market-average rate of return through economic cycles.

d. **Diversification** – Finally, the OCTA shall diversify its portfolio(s) to avoid incurring unreasonable market risks.

4. PRUDENCE

OCTA's Board of Directors or persons authorized to make investment decisions on behalf of OCTA are trustees and fiduciaries subject to the prudent investor standard.

The standard of prudence to be used by investment officials shall be the "prudent investor" standard as defined in the Code below and shall be applied in the context of managing an overall portfolio. OCTA's investment professionals acting in accordance with written procedures and the Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control developments.

The Prudent Investor Standard: When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including but not limited to, the general economic conditions and the anticipated needs of OCTA, 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.

5. ETHICS AND CONFLICTS OF INTEREST

OCTA's officers and employees involved in the investment process shall not participate in personal business activity that conflicts with the proper execution of OCTA's investment program, or which impairs their ability to make impartial investment decisions. OCTA's investment professionals and Treasury/Public Finance Department employees are not permitted to have any material financial interests in financial institutions that conduct business with OCTA, and they are not permitted to have any personal financial/investment holdings that have a material effect on the performance of OCTA's investments.

6. DELEGATION OF AUTHORITY

Authority to manage OCTA's investment program is derived from an order of the Board of Directors. Management responsibility for the investment program is hereby delegated to OCTA's Treasurer pursuant to Section 53607 of the Code. On an annual basis, the Board of Directors is required to renew the authority of OCTA's Treasurer to invest or reinvest OCTA funds. The Treasurer is hereby authorized to delegate his authority as he determines to be appropriate. No person may engage in an investment transaction except as provided under the terms of this Investment Policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all actions undertaken and shall establish a system of controls to regulate the activities of subordinate professionals.

The Treasurer shall develop administrative procedures and internal control, consistent with this Investment Policy, for the operation of OCTA's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of OCTA.

7. RESPONSIBILITIES

The Finance and Administration Committee of the OCTA Board of Directors, subject to the approval of the OCTA Board of Directors, is responsible for establishing the Investment Policy and ensuring investments are made in compliance with this Investment Policy. This Investment Policy shall be reviewed annually by the Board of Directors at a public meeting.

The Treasurer is responsible for making investments and for compliance with this policy pursuant to the delegation of authority to invest funds or to sell or exchange securities and shall make a quarterly report to the Board of Directors in accordance with Section 53646 (b) of the Code. Under Section 53646 (b) the Code states that the Treasurer may make a quarterly report to the Board of Directors. OCTA also provides a monthly report to the Finance and Administration Committee and provides copies to the Board of Directors per section 53607 of the Code.

The Treasurer is responsible for establishing a procedural manual for OCTA's investment program and for having an annual independent audit performed on OCTA's investments.

8. COMPLIANCE

The OCTA has provided each of its portfolio managers with a copy of this Investment Policy as a part of their contract and expects its portfolio managers to invest each portfolio they manage for OCTA in accordance with the provisions of the Investment Policy. However, bond proceeds may be invested in approved short-term investments without regard to diversification limits. This may occur during the initial deposit of the bond proceeds portfolio, the final drawdown of the portfolio, or other times in between when appropriate due to drawdown requirements as requested by OCTA's Treasurer. When diversification limits are exceeded by a portfolio manager, the Treasurer will document the situation and report the circumstances to the Finance and Administration Committee monthly and include a write-up in the quarterly Debt and Investment report to the Board of Directors.

The OCTA Treasurer is responsible for verifying each portfolio manager's compliance as well as OCTA's entire portfolio's compliance with the provisions of the Investment Policy.

If OCTA's Treasurer, in his sole discretion, finds that a portfolio manager has made an investment that does not comply with the provisions of the Investment Policy, the Treasurer shall immediately notify the portfolio manager of the compliance violation. At that point, the portfolio manager is on probation for a period of one year. The second time a violation occurs while the portfolio manager is on probation, the Finance and Administration Committee shall review the error and may request that the portfolio manager responsible for the compliance violation meet with the Chair of the Finance and Administration Committee and the Treasurer as soon as practical at which time it will be decided whether the Board of Directors will be notified of the violation.

If OCTA's Treasurer finds that the portfolio manager has made a third investment while on probation that does not comply with the provisions of the Investment Policy, the Treasurer shall notify the Board of Directors of the compliance violations. OCTA may terminate services for its convenience any time by providing at least 30 days written notice.

9. FINANCIAL BENCHMARKS

In order to establish a basis for evaluating investment results, the Authority uses four nationally recognized fixed income security performance benchmarks to evaluate return on investments. The ICE/BAML 1-3-year Treasury Index and the ICE/BAML 1-3 year AAA-A U.S. Corporate and Government Index benchmarks are used for OCTA's short-term portfolios, the ICE/BAML 1-5 year Treasury Index and the ICE/BAML 1-5 year AAA-A U.S. Corporate and Government Index benchmarks are used for the extended fund, while a customized performance benchmark may be used for the bond proceeds portfolios.

~~10. BOND PROCEEDS INVESTMENTS~~

~~Bond proceeds from OCTA's capital project financing programs are to be invested in accordance with the provisions of their specific indenture and are further limited by the maturity and diversification guidelines of this Investment Policy. Debt service reserve funds of bond proceeds are to be invested in accordance with the maturity provision of their specific indenture.~~

~~11. INVESTMENT AGREEMENTS – BOND PROCEEDS~~

~~Investment agreements must be approved and signed by OCTA's Treasurer. Investment agreements are permitted with any bank, insurance company or broker/dealer, or any corporation if:~~

~~A. At the time of such investment,~~

- ~~such bank has an unsecured, uninsured and unguaranteed obligation rated in a category of AA or better, or equivalent rating by two NRSROS or~~
- ~~such insurance company or corporation has an unsecured, uninsured and unguaranteed claims paying ability rated in a category of AA or better, or equivalent rating by two NRSROs, or~~
- ~~such bank or broker/dealer has an unsecured, uninsured and unguaranteed obligation rated in a category of AA or better, or equivalent rating by two NRSROs (and rated in a category of A-1 or equivalent in the short-term rating category from two NRSROS ; provided that if, such broker/dealer or bank is rated in a category of A or equivalent also collateralize the obligation under the investing agreement with U.S. Treasuries, Government National Mortgage Association securities, Federal National Mortgage Association securities or Federal Home Loan Mortgage Association securities meeting the following requirements:~~

    1. ~~the securities are held free and clear of any lien by OCTA's custodian or trustee or an independent third party acting as agent~~

~~"Agent" for the custodian or trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million and the custodian or trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for OCTA's custodian or trustee; and~~

~~2. a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of OCTA's custodian or trustee and OCTA; and~~

~~3. the Agent provides OCTA's custodian or trustee and OCTA with valuation of the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required 102 percent collateral percentage is not restored within two business days of such valuation.~~

~~B. The agreement shall include a provision to the effect that if any rating of any such bank, insurance, broker-dealer or corporation is downgraded below a minimum rating to be established at the time the agreement is executed, OCTA shall have the right to terminate such agreement.~~

10~~11~~. PERMITTED INVESTMENTS ~~FOR NON-BOND PROCEEDS~~

Maturity and Term

All investments, unless otherwise specified, are subject to a maximum stated term of five years. Maturity shall mean the stated final maturity or the mandatory redemption date of the security, or the unconditional put option date if the security contains such a provision. Term or tenure shall mean the remaining time to maturity from the settlement date.

The Board of Directors must grant express written authority to make an investment or to establish an investment program of a longer term no less than three months prior to the investment

Eligible Instruments and Quality

OCTA policy is to invest only in high quality instruments as permitted by the Code, subject to the limitations of this Investment Policy. If an eligible security already contained in the Authority's portfolio is subsequently placed on "Negative Credit Watch" by any of the three Nationally Recognized Statistical Rating Organizations (NRSROs), then the security will be handled under the provisions of Rating Downgrades. Percentage holding limits and credit quality minimums in this section are applicable at the time of purchase.

1.~~)~~ OCTA NOTES AND BONDS

Notes and bonds issued by OCTA, including notes and bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by OCTA or by a department, board, agency or authority of OCTA which may bear interest at a fixed or floating rate.

2.~~)~~ U.S., FEDERAL AGENCIES AND U.S GOVERNMENT-SPONSORED ENTERPRISES

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

~~Direct obligations of the United States of America and securities which are fully and unconditionally guaranteed as to the timely payment of principal and interest by the full faith and credit of the United States of America.~~

~~U.S. Treasury coupon and principal STRIPS (Separate Trading of Registered Interest and Principal of Securities) and TIPS (Treasury Inflation Protected Securities) are permitted investments pursuant to the Investment Policy.~~Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or the U.S. government sponsored enterprises.

~~3) Federal Agency and Government Sponsored Enterprises Instrumentality Securities (Government Sponsored Enterprises)~~

~~Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.~~

~~Debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of trade settlement issued by the following:~~

- ~~Federal Home Loan Bank (FHLB)~~
- ~~Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)~~
- ~~Federal National Mortgage Association (FNMA or Fannie Mae)~~
- ~~Federal Farm Credit Bank (FFCB)~~
- ~~Federal Agricultural Mortgage Corporation (Farmer Mac)~~

~~4) Federal Agencies~~

~~Mortgage-backed securities and debentures with a final maturity not exceeding five years from the date of trade settlement issued by the following:~~

- ~~Government National Mortgage Association (GNMA or Ginnie Mae)~~
- ~~Small Business Administration (SBA)~~
- ~~Export-Import Bank of the United States (EXIMBANK)~~
- ~~Maritime Administration~~
- ~~Washington Metro Area Transit~~

- ~~U.S. Department of Housing & Urban Development~~
- ~~Federal Deposit Insurance Corporation (FDIC)~~
- ~~National Credit Union Administration (NCUA)~~

~~Any Federal Agency and U.S. Government Sponsored Enterprise security not specifically mentioned above is not a permitted investment.~~

345.) ~~State of California and Local Agency Obligations~~MUNICIPAL DEBT

Such instruments defined as being issued by a local or state agency, including:

A. Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

B. ~~Registered state warrants, treasury notes or bonds of the State of California and bonds, notes, warrants or other evidences of indebtedness of any local agency within the State of California, other than OCTA, of the State,~~ Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the state or local agency or by a department, board, agency or authority of the~~the State or~~ local agency.

C. Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

~~A. Such obligations must be issued by an entity whose debt is rated in a rating category of A (long-term) or A-1 (short term) or their equivalents at least A-1 or better by two of the three NRSROs for short-term obligations., or A or the equivalent for long-term debt.~~

~~B.~~

~~C. OCTA may also purchase defeased state and local obligations as long asif the obligations have been legally defeased with U.S. Treasury securities and such obligations mature or otherwise terminate within five years of the date of purchase.~~

~~D.~~

~~E. Public agency bonds issued for private purposes (industrial development bonds) are specifically excluded as allowable investments.~~

4.6) BANKERS ACCEPTANCES

Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. ~~which:~~

~~A. are eligible for purchase by the Federal Reserve System, and~~

~~B. are rated by at least two of the NRSROs with at least A-1 or the equivalent for short-term deposits, and~~

~~C. may not exceed the 5 percent limit on any one commercial bank.~~

~~Maximum Term: 180 days (Code)~~

5.~~7)~~ COMMERCIAL PAPER

The entity that issues commercial paper shall meet the following conditions~~Commercial Paper must~~:

~~A.~~ ~~be rated at least A-1 or the equivalent by two of the three NRSRO's, and~~

B. be issued by corporations that have~~s~~ debt other than commercial paper, if any, that is rated ~~at least~~ A-1- or its~~the~~ equivalent or higher ~~rating~~ by a NRSRO ~~for issuer's debt, other than commercial paper, and~~

C. be issued by corporations organized and operating within the United States and having total assets in excess of five hundred million dollars ($500,000,000), and

D. may not purchase more than ~~not represent more than~~ 10 percent of the outstanding paper of any single issuer.

~~Maximum Term: 180 days (Code 270 days)~~

6.~~8)~~ NEGOTIABLE CERTIFICATES OF DEPOSIT

Negotiable Certificates of Deposit issued by a nationally or state-chartered bank or state, a savings association or a federal association ~~or by a federally licensed~~ (as defined by Section 5102 of the Financial Code), a state or federally licensed or~~or~~ state licensed branch of a foreign bank. ~~, which have been rated in a rating category of A (long-term) or A-1 (short-term) or their equivalents by at least two of the NRSRO's. at least A-1 or the equivalent for short-term deposits.~~

~~Maximum Term: 270 days~~

7.~~9)~~ REPURCHASE AGREEMENTS

Repurchase agreements collateralized by U.S. Treasuries or Agency securities as defined in the Investment Policy with any registered broker-dealer subject to the Securities Investors Protection Act or any commercial banks insured by the FDIC ~~so long as at the time of the investment such dealer (or its parent) has an uninsured, unsecured and unguaranteed obligation rated P-1 short-term or A2 long-term or better by Moody's, and A-1 short-term or A long-term or better by Standard & Poor's,~~ provided:

A. a Securities Industry and Financial Markets Association (SIFMA) master repurchase agreement and a tri-party agreement, if applicable, representing a custodial undertaking in connection with a master repurchase agreement, which governs the transaction and has been signed by OCTA; and

B. the securities are held free and clear of any lien by OCTA's custodian or trustee or an independent third party acting as agent "Agent" for the custodian or trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million and the custodian or trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for OCTA's custodian or trustee; and

C. a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of OCTA's custodian or trustee and OCTA; and

D. the Agent provides OCTA's custodian or trustee and OCTA with valuation of the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required 102 percent collateral percentage is not restored within two business days of such valuation.

~~Maximum Term: 30 days (Code 1 year)~~

~~Reverse repurchase agreements are not permitted unless used as a permitted investment in the Local Agency Investment Fund~~

8.~~1)~~ MEDIUM TERM NOTES~~Maturity Corporate Securities~~

Medium term notes are defined as all c~~C~~orporate and depository institution debt securities ~~which:~~

~~A. are rated in a rating category of A or its equivalent by at least one NRSRO, and are rated A- or better by two of the three NRSRO's, and~~

~~B. are~~ issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, and

~~A. C. may not represent more than ten percent (10%) of the issue in the case of a specific public offering. This limitation does not apply to debt that is "continuously offered" in a mode similar to commercial paper, i.e. medium termmedium-term notes ("MTNs"). Under no circumstance can any one corporate issuer represent more than 5 percent of the portfolio.~~

~~B. Maximum Term: Five (5) years. (Code)~~

9.~~1)~~ MONEY MARKET AND MUTUAL FUNDS

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment ~~C~~Company Act of 1940. Shares ~~(commonly called money market funds) which:~~

~~A. are rated AAA (or the equivalent highest ranking) by two of the three NRSRO's, and~~

~~B.~~ may not represent more than 10 percent of the money market fund's assets.

~~**1) Other Mutual Funds**~~

Shares of beneficial interest issued by diversified management companies, ~~(~~ commonly called mutual funds. Shares ~~) which:~~

~~A. are rated AAA (or the equivalent highest ranking) by two of the three NRSRO's, and~~

~~B.~~ may not represent more than 10 percent of the fund's or pool's asset and no ~~s~~

~~C. no~~ more than 10% of the total portfolio may be invested in shares of any one mutual fund. ~~may not represent more than 10 percent of the fund's or pool's assets.~~

10~~1~~.~~)~~ MORTGAGE OR ASSET-BACKED SECURITIES

Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond. ~~which:~~

~~A. is rated AAA or equivalent (excluding US Government/Agency/Instrumentality backed structured product which will be permitted with their prevailing ratings even if those ratings are below AAA) by a NRSRO, or be rated at least A-1 or the equivalent by two of the three NRSRO's for money-market asset-backed securities, and~~

~~B. is issued by an issuer having at least an A or equivalent rating by a NRSRO for its long-term debt.~~

~~Maximum Term: Five year stated final maturity. (Code)~~

~~Asset-backed securities, excluding mortgages, may not exceed 10 percent of the allocation~~

11.~~)~~ SUPRANATIONALS

US Dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

12.~~4)~~ STATE OF CALIFORNIA LOCAL AGENCY INVESTMENT FUND (LAIF)

LAIF is a pooled fund managed by the State Treasurer referred to in Section 16429.1 of the Code. All securities are purchased under the authority of the Code Section 16430 and 16480.4.

13.~~5)~~ ORANGE COUNTY TREASURY INVESTMENT POOL (OCIP)

The OCIP is a pooled fund managed by the Orange County Treasurer and is comprised of two funds, the Money Market Fund and Extended Fund. The Money Market Fund is invested in cash equivalent securities. The Extended Fund is for cash requirements past one year and is based on the Code Sections 53601 and 53635. These pools are based on the investment requirements detailed in Government Code Sections 53600 et seq. and 53630 et seq.

14.~~6)~~ INVESTMENT POOLS~~California Asset Management Program (CAMP)~~

Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations as authorized under this investment policy~~53601 (a) to (o), inclusive,~~ and that comply with the investment restrictions of Government Code Sections 53600 through 53610 and Section 53630.

~~CAMP is a California Joint Powers Authority ("JPA") established in 1989 to provide California public agencies with professional investment services. CAMP investments must be rated AA or better by two of the three NRSRO's.~~

15~~7.)~~ VARIABLE AND FLOATING RATE SECURITIES

Variable and floating rate securities are restricted to investments in securities with a final maturity of not to exceed five years as described above, must utilize traditional money market reset indices such as U. S. Treasury bills, Federal Funds, commercial paper or LIBOR (London Interbank Offered Rate) or SOFR (Secured Overnight Financing Rate), and must meet all minimum credit requirements previously detailed in the Investment Policy. Investments in floating rate securities whose reset is calculated using more than one of the above indices are not permitted, i.e. dual index notes.

16.~~8)~~ BANK DEPOSITS

Bank deposits in California banks which have a minimum short-term rating of A-1, or its equivalent or higher, by a NRSRO~~Standard and Poor's and a minimum short-term rating of P-1 by Moody's~~. The Treasurer shall draft and execute a contract describing provisions for bank deposits.

~~1~~17.~~29)~~ DERIVATIVES

Derivatives are to be used as a tool for bonafide hedging investments only where deemed appropriate. Derivatives shall not be used for the purpose of interest rate speculation.

Derivative products in any of the eligible investment categories listed above may be permitted. The Treasurer has the sole responsibility for determining which prospective investments are derivatives. Each prospective investment in a derivative product must be documented by the Treasurer as to the purpose and specific financial risk being hedged. Each such investment must be approved by the Finance and Administration Committee prior to entering into such investment.

No investments shall be permitted that have the possibility of returning a zero or negative yield if held to maturity. In addition, the investment in inverse floaters, range notes, strips derived from mortgage obligations, step-up notes and dual index notes are not permitted investments.

Rating Downgrades

OCTA may from time to time invest in a security whose credit rating is down-graded below the minimum credit quality criteria permitted by this Investment Policy.

Any security held as an investment whose credit rating falls below the minimum requirements of this I~~i~~nvestment Policy guidelines or whose rating is put on notice for possible downgrade shall be immediately reviewed by the Treasurer for action, and notification shall be made to the Board of Directors in writing as soon as practical and/or included in the monthly Orange County Transportation Authority Investment and Debt Programs report. The decision to retain the security until maturity, sell (or put) the security, or other action shall be approved by the Treasurer.

Diversification and Maturity Restrictions ~~Guidelines~~

Diversification and maturity restrictions ensure the portfolio is not unduly concentrated in the securities of one type, industry, ~~or~~ entity, or specific maturity thereby assuring adequate portfolio liquidity should one sector or company experience difficulties.

Outside portfolio managers must review the portfolios they manage to ensure compliance with OCTA's diversification guidelines on an ongoing basis.

AUTHORIZED INVESTMENTS, ISSUER CONCENTRATION & MATURITY RESTRICTIONS

~~Instruments~~	~~At All Times Maximum % Portfolio~~
~~1) OCTA Note and Bonds~~	~~25%(Code 100%)~~
~~2) U.S. Treasuries (including U.S. Treasury STRIPS & TIPS)~~	~~100%(Code)~~
~~3) Federal Agency and Government Sponsored Enterprises…Instrumentality Securities~~	~~100%(Code)~~ ~~100%~~
~~4) Federal Agencies~~	
~~45) State of California and CA Local Agencies 5) Non-CA Municipal Obligations~~	~~25%(Code 100%)~~
~~6) Bankers Acceptances~~	~~30% (Code 40%)~~
~~7) Commercial Paper~~	~~25% (Code)~~
~~8) Negotiable CDs~~	~~30% (Code)~~
~~9) Repurchase Agreements~~	~~75% (Policy)~~
~~10) Medium Term Maturity Corporate Securities~~	~~30% (Code)~~
~~11) Money Market Funds and 12) Other Mutual Funds (in total)~~	~~20% (Code)~~
~~13) Mortgage and Asset-backed Securities~~	~~20% (Code)~~
~~14) Supranationals~~	~~30% (Code)~~
~~154) LAIF~~	~~$6540mm maximum per entity~~
~~165) OCIP~~	~~$40mm maximum per entity~~
~~176) Investment PoolsCAMP~~	~~210%~~
~~187) Variable and Floating Rate Securities~~	~~30%~~
~~198) Bank Deposits~~	~~5%~~
~~2019) Derivatives (hedging transactions only) and subject to prior approval~~	~~5%~~

~~20) Investment Agreements pursuant to indenture.................................. 100%~~

Type of Investment	CA Code Maximum Maturity	CA Code Maximum % of Portfolio	CA Code Minimum Quality Requirements	OCTA Maximum % of Portfolio*	OCTA Code Minimum Quality Requirements
OCTA Notes and Bonds	5 Years	100%	None	25%	Same as CA Code
U.S., Federal Agencies & U.S. Government Sponsored Enterprises	5 Years	100%	None	Same as CA Code	Same as CA Code
Municipal Debt	5 Years	100%	None	30% total, no more than 5% by any one issuer	"A" rating category or "A-1" rated, or its equivalent or higher, by an NRSRO
Bankers Acceptances	180 Days	40%, 30% of a single issuer	None	30%, no more than 5% any single issuer	"A-1" rated, or its equivalent or higher, by 2 NRSROs
Commercial Paper	270 Days	25%, 10% of a single issuer	"A-1" rated, or its equivalent or higher by an NRSRO	Same as CA Code	"A-1" rated, or its equivalent or higher, by 2 NRSROs
Negotiable Certificates of Deposit	5 Years	30%	None	30%, no more than 5% in any single issuer	"A" rating category or "A-1" rated, or its equivalent or higher, by 2 NRSROs
Repurchase Agreements	1 Year	100%	None	25%	"A" rating category or "A-1"rated, or its equivalent or higher, by 2 NRSROs
Reverse Repurchase Agreements	92 days	20% of the base value of the portfolio	None	Only permitted as a permitted investment within a JPA investment pool	Only permitted as a permitted investment within a JPA investment pool
Medium Term Maturity Notes	5 Years	30%	"A" rating category, or its equivalent or higher, by an NRSRO	30% total, no more than 5% in any one issuer	Same as CA Code
Money Market/Mutual Funds	N/A	20%, 10% of any one mutual fund	"AAA" rated, or its equivalent, by 2 NRSROs	20%, 10% of fund's assets, 10% of any one mutual fund	Same as CA Code
Mortgage Pass-Through and Asset-backed Securities	5 Years	20%	"AA" rating category, or its equivalent or higher, by an NRSRO	20%, no more than 10% in Asset-backed Securities, no more than 5% in any single issuer	Same as CA Code
Supranationals	5 Years	30%	"AA" rating category, or its equivalent or higher, by an NRSRO	20%, no more than 10% in any single issuer	Same as CA Code
Local Agency Investment Fund (LAIF)	N/A	$65 million per account	None	$65 million per account	Same as CA Code
Orange County Investment Pool (OCIP)	N/A	100%	None	10%	Same as CA Code
Joint Powers Authority (JPA) Investment Pools	N/A	100%	None	10%	Same as CA Code

* Additional portfolio restrictions include bank deposits (5%) and variable and floating rate securities (30%)

Issuer/Counter-Party Diversification Guidelines For All Securities Except ~~Federal Agencies, Federal Instrumentalities, Investment Agreements, Repurchase Agreements and OCTA Debt~~U.S. Treasuries and U.S. Government Agency Securities

~~Any one corporation, bank, local agency, special purpose vehicle or other corporate name for one or more series of securities. 5%~~
Unless otherwise specified in this policy, any one corporation, bank, local agency, special purpose vehicle or other corporate issuer name for one or more series of securities shall not exceed 5% of the portfolio.

~~**Issuer/Counter-Party Diversification Guidelines For Federal Agencies, Federal Instrumentalities and Repurchase Agreements**~~

~~Any one Federal Agency or Federal Instrumentalities 35%~~
~~Any one repurchase agreement counter-party name~~

~~If maturity/term is ≤ 7 days 50%~~
~~If maturity/term is > 7 days 35%~~

Issuer/Counter-Party Diversification Guidelines for OCTA's Debt

The Authority can purchase all or a portion of the Orange County Transportation Authority's debt, including notes and bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by OCTA or by a department, board, agency or authority of OCTA which may bear interest at a fixed or floating rate, providing the purchase does not exceed 25% of the Maximum Portfolio and when authorized by the Internal Revenue Service.

11.~~XII~~ S~~s~~ECURITIES S~~s~~AFE K~~k~~EEPING

All deliverable security transactions, including collateral for repurchase agreements, entered into by OCTA shall be conducted on a delivery-versus-payment basis. Deliverable s~~S~~ecurities shall be held by a third-party custodian designated by the Treasurer, evidenced by safe keeping receipts and in compliance with Code Section 53608.

~~XIII.~~12. BROKER DEALERS

The Treasurer, and investment professionals authorized by the Treasurer, may buy securities from a list of broker dealers and financial institutions that will be periodically reviewed.

Outside portfolio managers must certify that they will purchase securities from broker/dealers (other than themselves) or financial institutions in compliance with this Investment Policy.

13~~XIV~~. INVESTMENT POLICY REVIEW

This Investment Policy shall be reviewed annually by the Finance and Administration Committee of the OCTA Board of Directors to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield and diversification and its relevance to current law and economic trends.

~~XV~~14. DEFINITION OF TERMS

ACCRUED INTEREST: The amount of interest that is earned but unpaid since the last interest payment date.

AGENCY SECURITIES~~: (~~: (See U.S. Government Agency Securities)

ASK PRICE~~: (~~: (Offer Price) The price at which securities are offered from a seller.

ASSET BACKED SECURITIES (ABS): Securities collateralized or backed by receivables such as automobile loans and credit card receivables. The assets are transferred or sold by the company to a Special Purpose Vehicle and held in trust. The SPV or trust will issue debt collateralized by the receivables.

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

BASIS POINT: When a yield is expressed as X.YZ%, the YZ digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

BID PRICE: The price at which a buyer offers to buy a security.

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains an electronic record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). These securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment.

CALLABLE BONDS: A bond issue which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a security.

CERTIFICATES OF DEPOSIT (NEGOTIABLE CDs): A negotiable (marketable or transferable) receipt for a time deposit at a bank or other financial institution for a fixed time and interest rate.

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits in an Investment Agreement.

COMMERCIAL PAPER (CP): Unsecured promissory notes issued by companies and government entities usually at a discount. Commercial paper is negotiable, although it is typically held to maturity. ~~The maximum maturity is 270 days, with most CP issued for terms of less than 30 days.~~

COUPON: The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as "interest rate."

CURRENT YIELD: The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of assets in the name of the depositor.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVE SECURITY: Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

DISCOUNT: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers' acceptances, are known as discount securities. They sell at a discount from par and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION: An investment principal designed to spread the risk in a portfolio by dividing investments by sector, maturity and quality rating.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the "average maturity" of an investment portfolio using each investment's maturity weighted by the size or book-value of that investment.

DURATION: A measure of the timing of cash flows, such as the interest payments and principal repayment, to be received from a given fixed-income security.

FEDERAL FUNDS RATE: Interest rate at which banks lend federal funds to each other.

FEDERAL OPEN MARKET COMMITTEE (FOMC): A committee within the Federal Reserve System that makes short-term monetary policy for the Fed. The committee decides either to sell securities to reduce the money supply, or to buy government securities to increase the money supply. Decisions made at FOMC meetings will cause interest rates to either rise or fall.

FEDERAL RESERVE SYSTEM: A U.S. centralized banking system which has supervisory powers over the 2 Federal Reserve banks and about 3,000-member banks.

FITCH Ratings referred to as Fitch: (See Nationally Recognized Statistical Rating Organizations)

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

INTEREST RATE RISK: The risk associated with declines or rises in interest rates, which causes the market price of a fixed-income security to increase or decrease in value.

LIQUIDITY: The speed and ease with which an investment can be converted to cash.

MARK-TO-MARKET: The process by where the value of a security is adjusted to reflect current market conditions.

MARKET RISK: The risk that the value of a security will rise or decline as a result in changes in market conditions.

MARKET VALUE: The current market price of a security.

MATURITY: The date that the principal or stated value of an investment becomes due and payable.

MEDIUM TERM MATURITY CORPORATE SECURITIES: Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

MONEY MARKET: The market in which short-term debt instruments (Treasury bills, discount notes, commercial paper, bankers' acceptances, etc.) are issued and traded.

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invest in a variety of short-term money market instruments.

MOODY'S INVESTORS SERVICE, INC. referred to as Moody's: ~~-~~(See Nationally Recognized Statistical Rating Organizations)

MORTGAGE-BACKED SECURITY: A debt instrument with a pool of real estate loans as the underlying collateral. The mortgage payments of the individual real estate assets are used to pay interest and principal on the bonds.

MUNICIPAL DEBT: Issued by public entities to meet capital needs.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS (NRSRO's): Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.) The primary rating agencies include Standard & Poor's Corporation; Moody's Investor Services, Inc., Fitch Ratings and Kroll Bond Rating Agency, Inc.

NEGOTIABLE CD: (See Certificates of Deposit)

NET ASSET VALUE (NAV): The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling the fund's assets which includes securities, cash and accrued earnings, then subtracting this from the fund's liabilities and dividing by the total number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio.

NON-CALLABLE: Bond that is exempt from any kind of redemption for a stated time period.

OCTA BONDS: Bonds, notes, warrants, or other evidences of indebtedness.

OFFER PRICE: An indicated price at which market participants are willing to sell a security.

PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

PORTFOLIO: A group of securities held by an investor.

PREMIUM: The amount by which the price paid for a security exceeds the security's par value.

PRIME RATE: A preferred interest rate charged by commercial banks to their most creditworthy customers.

PRINCIPAL: The face value or par value of an investment.

PURCHASE DATE: See (Trade Date)

REINVESTMENT RISK: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

REPURCHASE AGREEMENTS (REPOS): A purchase of securities under a simultaneous agreement to sell these securities back at a fixed price on some future date. This is in essence a collateralized investment, with the difference between the purchase price and sales price determining the earnings.

SAFEKEEPING: Holding of assets (e.g. securities) by a financial institution.

SECURITES & EXCHANCE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SETTLEMENT DATE: The date on which the purchase or sale of securities is executed. For example, in a purchase transaction, the day securities are physically delivered or wired to the buyer in exchange for cash is the settlement date.

SPECIAL PURPOSE VEHICLE (SPV): A trust or similar structure created specifically to purchase securities and reprofile cash flows and/or credit risk. Mortgage or Asset-backed securities may be issued out of the SPV and secured by the collateral transferred from the corporation.

STANDARD & POOR'S CORPORATION referred to as Standard and Poor's or S & P~~: (~~: (See Nationally Recognized Statistical Rating Organizations)

SUPRANATIONAL: A supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in member countries.

THIRD-PARTY CUSTODIAL AGREEMENT~~: (~~: (See Custodian)

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio.

TRADE DATE: The date and time corresponding to an investor's commitment to buy or sell a security.

U.S. GOVERNMENT AGENCY SECURITIES or FEDERAL AGENCIES~~AND U.S. FEDERAL INSTRUMENTALITIES~~: U.S. Government related organizations, the largest of which are government financial intermediaries assisting specific credit markets (housing, agriculture). ~~Often simply referred to as "Agencies", they include:~~

- ~~Federal Home Loan Bank (FHLB)~~
- ~~Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)~~
- ~~Federal National Mortgage Association (FNMA or Fannie Mae)~~
- ~~Federal Farm Credit Bank (FFCB)~~
- ~~Federal Agricultural Mortgage Corporation (Farmer Mac)~~
- ~~Government National Mortgage Association (GNMA or Ginnie Mae)~~
- ~~Small Business Administration (SBA)~~
- ~~Export-Import Bank of the United States~~
- ~~Maritime Administration~~
- ~~Washington Metro Area Transit~~
- ~~U.S. Department of Housing & Urban Development~~
- ~~Federal Deposit Insurance Corporation (FDIC)~~

- ~~National Credit Union Administration (NCUA)~~

~~Any Federal Agency and U.S. Government Sponsored Enterprise security not specifically mentioned above is not a permitted investment.~~

U.S. TREASURY SECURITIES: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. The Treasury issues both discounted securities and fixed coupon notes and bonds.

Treasury bills: non-interest_bearing discount securities of the U.S. Treasury with maturities under one year.

Treasury notes: interest-bearing obligations of the U.S. Treasury with maturities ranging from two to ten years from the date of issue.

Treasury bond: interest-bearing obligations issued by the U.S. Treasury with maturities ranging from ten to thirty years from the date of issue.

Treasury STRIPS: U.S. Treasury securities that have been separated into their component parts of principal and interest payments and recorded as such in the Federal Reserve book entry record-keeping system.

Treasury TIPS: U.S. Treasury securities whose principal increases at the same rate as the Consumer Price Index. The interest payment is then calculated from the inflated principal and repaid at maturity.

VARIABLE AND FLOATING RATE SECURITIES: Variable and floating rate securities are appropriate investments when used to enhance yield and reduce risk. They should have the same stability, liquidity and quality as traditional money market securities.

~~For the purposes of this Investment Policy, a Variable Rate Security, where the variable rate of interest is readjusted no less frequently than every 762 calendar days, shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest. A Floating Rate Security shall be deemed to have a remaining maturity of one day.~~

VOLATILITY: The degree of fluctuation in the price and valuation of securities.

YIELD: The current rate of return on an investment security generally expressed as a percentage of the securities current price.

ZERO COUPON SECURITIES: Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.