RESOLUTION NO. 26-05-106

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA TO AMEND THE INVESTMENT POLICY

THE BOARD OF DIRECTORS OF THE CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA DOES HEREBY FIND, RESOLVE, AND ORDER AS FOLLOWS:

WHEREAS, the Clean Power Alliance of Southern California (formerly known as Los Angeles Community Choice Energy Authority) ("Clean Power Alliance" or "CPA") was formed on June 27, 2017; and

WHEREAS in March 2020, the Board of Directors (the "Board") adopted Investment Policy 2020-14 ("Investment Policy") to establish guidelines for the management of cash, deposits, and investments; and

WHEREAS in adopting the Investment Policy, the Board determined that CPA's primary objectives when managing funds are to safeguard the principal of the funds, meet the liquidity needs of CPA, and to achieve a return on investment on funds in CPA's control; and

WHEREAS, the Board adopted an amendment to the Investment Policy in February 2024 to permit investment in the California Asset Management Program;

WHEREAS, on May 14, 2026 the Board was presented with data, facts, and information supporting the need and benefit in amending the Investment Policy; and,

WHEREAS, the Board finds it reasonable and prudent to amend the Investment Policy to expand Acceptable Deposit and Investment Types, expand detail regarding Prohibited Investment Types and Practices, enhance risk mitigation practices to manage both credit and market risks, establish a methodology for evaluating the performance of CPA's investment portfolio, delegate authority to the Executive Committee to amend the Policy under certain conditions, and incorporate other administrative or clarifying amendments as contained in Exhibit A.

NOW THEREFORE, BE IT DETERMINED, ORDERED, AND RESOLVED, BY THE BOARD OF DIRECTORS OF THE CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA THAT:

1. The Board of Directors hereby approves amendments to Policy No. 14 Investment Policy, attached as Exhibit A.

2. The amendments to Policy No. 14 Investment Policy, as attached herein, are effective as of May 14, 2026.

3. Any and all acts authorized pursuant to this Resolution and performed prior to the passage of this Resolution are hereby ratified and approved.

APPROVED AND ADOPTED this 14th day of May 2026.

Deborah Klein Lopez, Chair

ATTEST:

Gabriela Monzon

Gabriela Monzon, Secretary

Exhibit A

Amended Investment Policy

Policy Title	Investment Policy		
Policy Number	2020-14	Effective Date	Original: 03/05/2020 Amended: 02/01/2024 Amended: 05/14/2026

This Investment Policy ("Policy") establishes guidelines for the management of cash, deposits, and investments (together, "Funds") at Clean Power Alliance of Southern California ("CPA")[1].

I. Investment Objectives

When managing Funds, CPA's primary objectives, in the following order of importance, shall be to (1) safeguard the principal of the Funds, (2) meet the liquidity needs of CPA, and (3) achieve a return on investment on Funds.

A. **Safety**: Safety of principal is the foremost objective of cash and investment management activities. The investment of Funds shall be undertaken in a manner that seeks to ensure the preservation of principal.

B. **Liquidity**: The Funds shall remain sufficiently liquid to meet all operating needs that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the investment of Funds in deposits or instruments that are available on demand is recommended.

C. **Return on Investment**: The deposit and investment portfolio shall be designed with the objective of attaining a market rate of return throughout the economic cycle while considering risk and liquidity constraints. The return on deposits and investments is of secondary importance compared to the safety and liquidity objectives described in I.A. and I.B., above.

II. Standard of Care

CPA will manage investments in accordance with the Prudent Investor Standard pursuant to California Government Code Section 53600.3[2]:

"[G]overning bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the

[1] Further definitions are available in Appendix 1.

[2] All further statutory references are to the California Government Code unless otherwise stated.

limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

III. Delegation of Authority

Pursuant to Section 53607, the Board of Directors hereby delegates responsibility to manage Funds to CPA's Chief Financial Officer, acting as CPA's Treasurer, or in lieu thereof, the Chief Executive Officer. The Treasurer is authorized to appoint an employee or another authorized individual as the Treasurer deems necessary for the prompt and faithful discharge of its duties pursuant to Section 53607.

IV. Acceptable Deposits

A. Deposits are subject to the Local Agency Security Program ("LASP") administered by the California Department of Financial Protection and Innovation ("DFPI") pursuant to Section 53630 through 53686. The following types of deposits are permitted:

1. **Deposits at Bank(s):** Funds may be invested in non-interest-bearing depository accounts to meet CPA's operating and collateral needs and grant requirements. Funds not needed for these purposes may be held in interest-bearing depository accounts.

2. **Placement Service Deposits**: Funds may be invested in deposits placed with a private sector entity that assists in the placement of deposits with eligible financial institutions located in the United States pursuant to Section 53601.8.

3. **Non-Negotiable Certificates of Deposit**: Funds may be invested in Non-Negotiable Certificates of Deposit pursuant to Sections 53635 and 53652.

V. Acceptable Investment Types

CPA seeks to restrict eligible investments permitted by Sections 53600 et seq to those securities listed below. In the event a discrepancy is found between this Policy and the California Government Code, the more restrictive parameters will take precedence.

A. The following types of investments are permitted consistent with Government Code Section 53601 and as described in Appendix 2:

1. **Local Government Investment Pools ("LGIP")**
   - i. **Local Agency Investment Fund ("LAIF"):** Funds may be invested in the Local Agency Investment Fund established by the California State Treasurer for the benefit of local agencies pursuant to Section 16429.1.
   - ii. **California Asset Management Program ("CAMP")**: Funds may be invested in the California Asset Management Program pursuant to Section 53601(m).

2. **US Treasury Obligations**: Funds may be invested in United States Treasuries and other government obligations pursuant to Section 53601(b).

3. **Federal Agency Securities:** Funds may be invested in Federal Agency

Securities or United States Government-Sponsored Enterprise ("GSE") obligations, participations, or other instruments pursuant to Section 53601(f).

4. **Bankers' Acceptances**: Funds may be invested in Banker's Acceptances pursuant to Section 53601(g).

5. **Negotiable Certificates of Deposit ("NCDs")**: Funds may be invested in NCDs pursuant to Section 53601(i) and subject to Section 53601.8.

6. **Mutual Funds and Money Market Mutual Funds**
   i. **Mutual Funds:** Funds may be invested in mutual funds pursuant to Section 53601(l)(1) and subject to Section 53601(l)(3).
   ii. **Money Market Mutual Funds:** Funds may be invested in money market funds pursuant to Section 53601(l)(2) and subject to Section 53601(l)(4).

7. **Municipal Securities**: Funds may be invested in municipal securities including obligations of CPA, the State of California, and any local agency within the State of California, pursuant to Section 53601(c).

8. **Municipal Securities (Registered treasury notes or bonds) of any of the other 49 states**: Funds may be invested in municipal securities (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, pursuant to Section 53601(d)

9. **Commercial Paper**: Funds may be invested in Commercial Paper pursuant to Section 53601(h).

10. **Repurchase Agreements**: Funds may be invested in Repurchase Agreements pursuant to Section 56301(j).

11. **Corporate Medium-Term Notes (MTNs)**: Funds may be invested in corporate MTNs pursuant to Section 53601(k).

12. **Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations:** Funds may be invested in asset-backed securities, mortgage-backed securities, mortgage pass-through securities, and collateralized mortgage obligations from issuers not previously defined in this Policy pursuant to Section 53601(o).

VI. Prohibited Investment Types and Practices

A. The following investment types are prohibited:

1. Pursuant to Section 53601.6, CPA shall not invest Funds in any security that could result in a zero- or negative-interest accrual, or less, if held to maturity. These prohibited investments include, but are not limited to, inverse floaters, range notes, or mortgage-derived interest-only strips. Under a provision sunsetting on January 1, 2031, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are

permitted.

2. State law notwithstanding, any investment types not specifically described in Section V are prohibited, including, but not limited to:
   - **i.** Supranational obligations pursuant to Section 53601(q).
   - **ii.** Futures.
   - **iii.** Options.
   - **iv.** Foreign currency denominated securities.

B. The following investment practices are prohibited:

1. Trading securities for the sole purpose of speculating on the future direction of interest rates.

2. Purchasing or selling securities on margin.

3. The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage.

4. The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment.

VII. Risk Management

A. Mitigating Credit Risk

Credit risk is the risk that a security will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. CPA will mitigate credit risk by adopting the following strategies:

- Implement the diversification requirements included in Section V and Appendix 2 of this Policy.
- No more than 5% of investments may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this Policy.
- Consider the sale of a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the investment portfolio in response to market conditions or CPA's risk preferences.

B. Mitigating Market Risk

Market risk is the risk that a security's value will fluctuate due to changes in the general level of interest rates. CPA will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with Funds that are not needed for current cash flow purposes.

CPA further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the investment portfolio differently in different interest rate environments. CPA, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The maximum stated final maturity of individual securities in the investment portfolio will be five (5) years, except as otherwise stated in Section 53600 *et seq.* or in this Policy.

- The duration of the investment portfolio will generally be approximately equal (+/-20%) to the duration of the Market Benchmark, a readily-available index selected by the Treasurer based on CPA's investment objectives, constraints and risk tolerances.

VIII. Bids and Purchase of Securities

Prior to the purchase of an investment pursuant to this Policy the persons authorized to make investments shall assess the market and market prices using information obtained from available sources including investment services, broker or dealers, and the media. A competitive bid process, when practical, will be used to place all investment purchases and sales transactions. Any competitive bid process used pursuant to this Policy shall be exempt from CPA's Non-Energy Contracting Policy.

IX. Brokers

Broker/dealers shall be selected by the Chief Executive Officer upon recommendation by the Treasurer. Selection of broker/dealers shall be based upon the following criteria: the reputation and financial strength of the company or financial institution, the reputation and expertise of the individuals employed, and pursuant to the requirements of Section 53601.5. The Chief Executive Officer shall require any selected broker, brokerage firm, dealer, or securities firm to affirm that it has not, within any 48-consecutive month period, made a political contribution to any member of the CPA Board, or any candidate who may join the CPA Board in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, the Political Reform Act, including section 84308, or any applicable CPA Policy, as amended from time to time. The selected broker or dealers shall be provided with and acknowledge receipt of this Policy, the Vendor Communication Policy, and the Campaign Contribution Disclosure Form.

X. Delivery, Safekeeping, and Custody

The delivery and safekeeping of all securities shall be made through a third-party custodian when practical and cost effective as determined by the Treasurer and in accordance with Section 53608.

All investment transactions shall be conducted on a delivery-versus-payment ("DVP") basis. To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all cash and securities, with the exceptions noted below, in the investment portfolio shall be held in safekeeping in CPA's name by a third party custodian, acting as agent for CPA under the terms of a custody agreement executed by the custodian and CPA. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by CPA from the custodian listing all securities held in safekeeping with current market data and other information.

The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (i) LGIPs; (ii) time certificates of deposit, and (iii) mutual funds and money market mutual funds, since these securities are not deliverable.

The Treasurer shall review all transaction confirmations for conformity with the original transaction.

XI. Conflict of Interest

CPA staff shall comply with state law and applicable CPA policies regarding conflicts of interest.

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the Funds are subject to public review and evaluation. Thus, employees and officials involved in the investment process shall refrain from personal business activity that could create a conflict of interest or the appearance of a conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Employees involved in the investment process and investment officials shall disclose to the Treasurer any material interests in financial institutions with which they conduct business, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the investments. Employees and officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of CPA.

XII. Internal Controls and Audits

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of CPA are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Funds shall be subject to a process of independent review by its external auditors. CPA's external auditors shall review the Funds in connection with CPA's annual audit for compliance with the Policy pursuant to Section 27134. The results of the audit shall be reported to the Treasurer.

XIII. Reports

A. **Monthly**: The Treasurer will perform a monthly review of the investment function. Following the commencement of investment transactions, the Treasurer shall submit a monthly report to the Finance Committee including all investment transactions, percentage of the investment portfolio represented by each investment type, and average investment portfolio credit quality.

B. **Annually**: The Treasurer will submit an annual report to the Finance Committee within 90 days of the end of a fiscal year providing the following:
   - A list of individual securities by investment type, issuer, credit risk rating, CUSIP number, settlement date of purchase, date of maturity, par value and dollar amount invested on all securities, the market value and source of the market value information;
   - A statement that the investment portfolio is in compliance with this Policy and

in accordance with Section 53646 or the manner in which the investment portfolio is not in compliance; and

- A statement of CPA's ability to meet anticipated cash requirements for the upcoming 12 months.

XIV. Performance Evaluation

The deposits and investments portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account CPA's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments.

The Treasurer shall monitor and evaluate the investment portfolio's performance relative to the chosen Market Benchmark(s), which will be included in the Treasurer's monthly report. Benchmarks may change over time based on changes in market conditions or cash flow requirements.

XV. Policy Administration and Limited Delegation for Amendments

The Treasurer will review this Policy and associated procedures on an annual basis to determine whether they should be amended, supplemented, or updated to account for changing business conditions and/or regulatory requirements. The Executive Committee is authorized to approve changes to (a) Section IV provided that any additions to the authorized deposits are approved by California Government Code and (b) Reporting requirements under Section XII of this Policy following the review and recommendation for approval of the proposed changes by the Finance Committee.

APPENDIX 1. GLOSSARY OF INVESTMENT TERMS

AGENCIES. Shorthand market terminology for any obligation issued by *a government-sponsored entity (GSE),* or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

- **FFCB.** The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.
- **FHLB.** The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.
- **FHLMC.** Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called "Freddie Mac" issues discount notes, bonds and mortgage pass-through securities.
- **FNMA.** Like FHLB and Freddie Mac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "Fannie Mae," issues discount notes, bonds and mortgage pass-through securities.
- **GNMA.** The Government National Mortgage Association, known as "Ginnie Mae," issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.
- **PEFCO.** The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.
- **TVA.** The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

BANKER'S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BID. The indicated price at which a buyer is willing to purchase a security or commodity.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from their own position.

CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION ("DFPI"). The Department of Financial Protection and Innovation (DFPI) is a state agency that protects California consumers and oversees the operations of state-licensed financial institutions including banks, credit unions, debt collectors, non-bank mortgage lenders, student loan services, money transmitters, and others. The DFPI also licenses and regulates a variety of financial businesses including securities brokers and dealers, investment advisers, payday lenders, certain fiduciaries, and non-bank lenders.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline, the issuer will likely call its current securities and reissue them at a lower rate of interest.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate.

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 of public monies.

COLLATERALIZED BANK DEPOSIT. A bank deposit that is collateralized at least 100% (principal plus interest to maturity). The deposit is collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

COLLATERALIZED TIME DEPOSIT. Time deposits that are collateralized at least 100% (principal plus interest to maturity). These instruments are collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for their own position.

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

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 T-bills and banker's 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. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a security to changes interest rates.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC). The Federal Deposit Insurance Corporation (FDIC) is an independent federal agency insuring deposits in U.S. banks and thrifts in the event of bank failures. The FDIC was created in 1933 to maintain public confidence and encourage stability in the financial system through the promotion of sound banking practices.

FEDERALLY INSURED TIME DEPOSIT. A time deposit is an interest-bearing bank deposit account that has a specified date of maturity, such as a certificate of deposit (CD). These deposits are limited to funds insured in accordance with FDIC insurance deposit limits.

FIDUCIARY. A person or organization that acts on behalf of another person(s) or organization that puts their clients' interest ahead of their own as they are bound both legally and ethically to act in the best interests of their clients.

JOINT POWERS AUTHORITY (JPA). An entity created by two or more public agencies that share a common goal in order to jointly exercise powers common to all members through a joint powers agreement or contract.

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

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

LOCAL AGENCY INVESTMENT FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL AGENCY SECURITY PROGRAM (LASP). The LASP administers California Government Code Section 53630 through 53686, and California Code of Regulations Section

16001.1.1 through 16010.1.3, governing the reporting and collateralization of California local agency deposits by insured depository institutions.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MATURITY. The final date upon which the principal of a security becomes due and payable. An investment's term or remaining maturity is measured from the settlement date to final maturity.

MEDIUM-TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100-basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MONEY MARKET MUTUAL FUND. A mutual fund that invests exclusively in short-term securities. Examples of investments in money market funds are certificates of deposit and U.S. Treasury securities. Money market funds attempt to keep their net asset values at $1 per share.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO). A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CERTIFICATE OF DEPOSIT (CD). A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs can be traded in a secondary market.

Offer (Ask). An indicated price at which market participants are willing to sell a security. Also referred to as the "ask price".

Paydown. A reduction in the principal amount owed on a bond, loan, or other debt.

Placement service deposits. A private service that allows local agencies to invest in FDIC-insured deposits with one or more banks, savings and loans, and credit unions located in the United States. IntraFi (formerly known as CDARS) is an example of an entity that provides this service.

Premium. The difference between the par value of a bond and the cost of the bond, when the cost is above par.

Prudent Investor (Prudent Person) Rule. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

Repurchase Agreement. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

Safekeeping. A service to bank customers whereby securities are held by the bank in the customer's name.

Securities and Exchange Commission (SEC). The U.S. Securities and Exchange Commission (SEC) is an independent federal government agency responsible for protecting investors, maintaining fair and orderly functioning of securities markets and facilitating capital formation. It was created by Congress in 1934 as the first federal regulator of securities markets. The SEC promotes full public disclosure, protects investors against fraudulent and manipulative practices in the market, and monitors corporate takeover actions in the United States. **Securities and Exchange Commission (SEC) Rule 15c3-1.** An SEC rule setting capital requirements for brokers and dealers. Under Rule 15c3-1, a broker or dealer must have sufficient liquidity in order to cover the most pressing obligations. This is defined as having a certain amount of liquidity as a percentage of the broker/dealer's total obligations. If the percentage falls below a certain point, the broker or dealer may not be allowed to take on new clients and may have restrictions placed on dealings with current client. **Structured Note.** Notes issued by Government Sponsored Enterprises (FHLB, FNMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

Short-Term Investment. Short-term investments are financial assets held with the intent and ability to be converted to cash within one year, that are readily marketable, provide daily liquidity, and are managed to limit exposure to fluctuations in principal value to meet near-term cash flow needs.

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 the member countries.

Third Party Custodian. An independent, third-party custodial safekeeping provider that has a fiduciary responsibility for safekeeping their client's assets to minimize the risk of a fraudulent transaction.

Total Rate of Return. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

VOLATILITY. The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.

APPENDIX 2. SUMMARY OF RISK MANAGEMENT CRITERIA FOR ACCEPTABLE INVESTMENT TYPES

Investment Type	Maximum Maturity	Maximum % of Investment Portfolio	Maximum Per Issuer	Minimum Credit Rating[3]
Local Government Investment Pools	N/A	None	None	N/A
US Treasury Obligations	5 years	None	None	None
Federal Agency Securities	5 years	20% (limit for callable agency securities)	30%	None
Bankers' Acceptances	180 days	40%	5%	A-1 (short-term debt rating) A (long-term debt rating)
Negotiable Certificates of Deposit	5 years	30%	5%	A-1 (short-term debt rating) A (long-term debt rating)
Mutual Funds and Money Market Mutual Funds	N/A	20%	10% (mutual funds) 20% (money market mutual funds)	Highest possible letter/numerical rating from not less than 2 NRSROs
Municipal Securities	5 years	30%	5%	A
Commercial Paper	397 days	25%	5%	A-1
Repurchase Agreements	1 year	None	None	None
Corporate Medium-Term Notes	5 years	30%	5%	A
Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations	5 years	20%	5%	AA

[3] Except where otherwise specified, this column refers to the minimum credit rating a security or issuer must have received from at least one nationally recognized statistical rating organization ("NRSRO").