

*Public Transportation Services Corporation*

# **INVESTMENT POLICY**

Approved by the PTSC Board of Directors on June 4, 2005.

# INVESTMENT POLICY

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## 1.0 Policy

It is the policy of the Public Transportation Services Corporation (PTSC) to ensure that the temporarily idle funds of the agency are prudently invested to preserve capital and provide necessary liquidity, while maximizing earnings.

## 2.0 Scope

- 2.1 Investments may only be made as authorized by the California Government Code ("Code") Section 53600 et seq., Sections 16429.1 through 16429.4 and this policy. This policy conforms to the Code as well as to customary standards of prudent investment management. Should the provisions of the Code become more restrictive than those contained herein, such provisions will be considered as immediately incorporated in this policy. Changes to the code which are less restrictive than this Policy may be adopted by the PTSC Board of Directors (Board).
- 2.2 This policy sets forth the PTSC's guidelines for the investment of surplus General, Special Revenue, Capital Projects, Enterprise (excluding cash and investments with fiscal agents), Internal Service, Expendable Trust Funds, and any new fund created by the Board, unless specifically exempted. Excluded from this policy are guidelines for the investment of proceeds related to debt financings, defeased lease transactions, Agency (Deferred Compensation, 401K, and Benefit Assessment District) and Pension Trust Funds.
- 2.3 Internal and external portfolio managers may be governed by Portfolio Guidelines which on an individual basis may differ from the total fund guidelines outlined herein. The Treasurer is responsible for monitoring and ensuring that the total funds subject to this policy remain in compliance with this policy, and shall report to the Board regularly on compliance.

## 3.0 Investment Objectives

- 3.1 The primary objectives, in priority order, of the PTSC's investment activities shall be:
- A. Safety: Safety of principal is the foremost objective of the investment program. The PTSC's investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The PTSC shall seek to ensure that capital losses are avoided whether from institutional default, broker-dealer default, or erosion of market value. Diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
  - B. Liquidity: The PTSC's investment portfolio will remain sufficiently liquid to enable PTSC to meet all operating requirements that might be reasonably anticipated.
  - C. Yield: The PTSC shall manage its funds to maximize the return on investments consistent with the two objectives above, with the goal of exceeding the performance benchmarks (Section 12.0) over a market cycle (typically a three to five year period).
- 3.2 It is the PTSC's policy to hold investments to maturity or until market value equals or exceeds (historical) cost. However, if the PTSC's liquidity needs require that investments be sold at a loss, or because of a downgrade of credit quality, national or public policy issues, or to take advantage of market conditions which will result in a gain on reinvestment of the sale proceeds, the security may be sold and the decline in value shall be recorded as a loss.

Internal and external investment managers shall report such losses to the Treasurer, Executive Officer, Finance, and Chief Financial Officer quarterly.

- 3.3 Investments shall be made with the judgment, skill, and diligence of a prudent investor acting in like capacity under circumstances then prevailing, for the sole benefit of the PTSC, and shall take into account the benefits of diversification in order to protect the PTSC's investment from the risk of substantial loss.
- 3.4 The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with this investment policy, written portfolio guidelines and procedures 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 the quarterly investment report to the Board, and appropriate action is taken to control adverse developments.

#### **4.0 Delegation of Authority**

- 4.1 The Board shall be the trustee of funds received by the PTSC. In accordance with the California Government Code (CGC) Section 53607, the Board hereby delegates the authority to invest or reinvest the PTSC's funds, to sell or exchange securities so purchased and to deposit securities for safekeeping to the Treasurer for a one year period, who thereafter assumes full responsibility for such transactions and shall make a monthly report of those transactions to the Board. Subject to review by the Board, the Board may renew the delegation of authority each year.
- 4.2 The Treasurer shall establish written procedures for the operation of the investment program consistent with this investment policy, including establishment of appropriate written agreements with financial institutions. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. The Treasurer may engage independent investment managers to assist in the investment of the PTSC's financial assets.
- 4.3 No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.
- 4.4 Officers and employees involved in the investment process shall be governed by the standards regarding ethical behavior and conflicts of interest established in the Los Angeles County Metropolitan Transportation Authority Ethics Policy and annually shall file a Statement of Economic Disclosure with the PTSC's Ethics Office.

#### **5.0 Permitted Investments**

- 5.1 All PTSC funds which are not required for immediate cash expenditures shall be invested in income producing investments or accounts, in conformance with the provisions and restrictions of this investment policy as defined in Section 5.1A of this investment policy (Attached) and as specifically authorized by the California Government Code, (Sections 53600, et seq.).
- 5.2 In order to reduce overall portfolio risk, investments shall be diversified among security type, maturity, issuer and depository institutions. See Section 5.1A for specific concentration limits by type of investment. The following issue concentration limits shall apply:
- A. No more than 15% of the portfolio may be invested in any one Federal Agency or government-sponsored issue.

- B. The obligations of a single corporation or depository institution shall not exceed 10% of the funds subject to this policy. In calculating this concentration limit, commercial paper, bankers' acceptances, medium term notes, asset-backed securities, and negotiable certificates of deposit shall be included; deposits collateralized per Section 7.3 of this policy are excluded from this calculation.

5.3 Maturities of individual investments shall be diversified to meet the following objectives:

- A. Investment maturities will be first and foremost determined by the PTSC's anticipated cash flow requirements.
- B. No investment instrument shall be purchased which has an effective maturity of more than five years from the date of purchase, unless the instrument is specifically approved by the Board or is approved by the Board as part of an investment program and such approval must be granted no less than three months prior to the investment.
- C. The average duration of the externally managed funds subject to this policy shall not exceed 150% of the benchmark duration. The weighted average duration of the internal portfolios shall not exceed three (3) years.

5.4 State and local government sponsored Investment Pools and money market mutual funds as authorized by this policy are subject to due diligence review prior to investing and on a continual basis as established in Section 5.1 A, #11 and #12.

5.5 This Investment Policy specifically prohibits the investment of any funds subject to this policy in the following securities:

- A. Derivative securities, defined as any security that derives its value from an underlying instrument, index, or formula, are prohibited. The derivative universe includes, but is not limited to, structured and range notes, securities that could result in zero interest accrual if held to maturity<sup>1</sup>, variable rate, floating rate or inverse floating rate investments, financial futures and options, and mortgage derived interest or principal only strips. Callable or putable securities with no other option features, securities with one interest rate step-up feature, and inflation-indexed securities meeting all other requirements of this Policy are excluded from this prohibition, as are fixed rate mortgage-backed securities and asset-backed securities.
- B. Reverse repurchase agreements.

## 6.0 Selection of Depository Institutions, Investment Managers and Broker-Dealers

6.1 To minimize the risk to PTSC's overall cash and investment portfolio, prudence and due diligence as outlined below shall be exercised with respect to the selection of Financial Institutions in which PTSC's funds are deposited or invested. The PTSC's Financial Advisor (FA) will conduct competitive processes to recommend providers of financial services including commercial banking, investment management, investment measurement and custody services.

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<sup>1</sup>California Debt and Investment Advisory Commission definition: Zero interest accrual means the security has the potential to realize zero interest depending upon the structure of the security. Zero coupon bonds and similar investments that start at a level below the face value are legal because their value does increase.

- A. In selecting Depositories pursuant to California Government Code (CGC) Sections 53600 (et seq.), the credit worthiness, financial stability, and financial history of the institution, as well as the cost and scope of services and interest rates offered shall be considered. No funds will be deposited in an institution unless that institution has been evaluated by a nationally recognized independent rating service as satisfactory or better. The PTSC's main depository institutions will be selected on a periodic and timely basis.
- B. Deposits of \$100,000 or less which are insured pursuant to federal law by the Federal Deposit Insurance Corporation (FDIC), or the National Credit Union Administration (NCUA) may be excluded from the independent rating service evaluation requirement above and from the collateralization requirements of Section 7.3 of this policy, at the Treasurer's discretion. A written waiver of securitization shall be executed, provided to the Depository Institution, and kept on file in the Treasury Department.
- C. The Treasurer shall seek opportunities to deposit PTSC funds with disadvantaged business enterprises, provided that those institutions have met the PTSC's requirements for safety and reliability and provide terms that are competitive with other institutions.

6.2 In selecting external investment managers and brokers, past performance, stability, financial strength, reputation, area of expertise, and willingness and ability to provide the highest investment return at the lowest cost to the PTSC within the parameters of this Investment Policy and the Code shall be considered. External investment managers must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor Act of 1940.

6.3 Pursuant to Code Section 53601.5, the PTSC and its investment managers shall only purchase statutorily authorized investments either from the issuer, from a broker-dealer licensed by the state, as defined in Section 25004 of the Corporations Code, from a member of a federally regulated securities exchange, a national or state-chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank.

- A. Internal investment manager will only purchase or sell securities from broker-dealers that are Primary Dealers in U.S. Government Securities or are a direct affiliate of a Primary Dealer.
- B. External investment managers may purchase or sell securities from non-Primary Dealers qualified under U.S. Securities and Exchange Commission Rule 15C3-1, the Uniform Net Capital Rule, and provided that the dealer is a certified member of the National Association of Securities Dealers. External investment managers shall submit to the PTSC, at least quarterly, a list of the non-Primary Dealers used during the period.
- C. External investment managers must certify in writing that they will purchase securities in compliance with this Investment Policy, PTSC Procedures, and applicable State and Federal laws.
- D. Internal investment managers will only purchase securities from broker-dealers who have returned a signed Receipt of Investment Policy and completed the Broker-Dealer Questionnaire, and have been approved by the Treasurer (see Appendices B and C). A current copy of the Broker-Dealer's financial statements will be kept on file in the Treasury Department.

- 6.4 Depositories, and external investment managers, who do business with the PTSC shall sign a Certification of Understanding. The Certification of Understanding (see Appendix A) states that the entity:
- A. Has read and is familiar with the PTSC's Investment Policy and Guidelines as well as applicable Federal and State Law;
  - B. Meets the requirements as outlined in this Policy;
  - C. Agrees to make every reasonable effort to protect the assets of the PTSC from loss;
  - D. Agrees to notify the PTSC in writing of any potential conflicts of interest.

Completed certifications shall be filed in the Treasurer's Office. Failure to submit a Certification of Understanding shall result in the withdrawal of all funds held by that financial institution, or investment manager and/or the rescission of any and all authority to act as an agent to purchase or invest funds for the PTSC.

- 6.5 All broker-dealers who do business with the PTSC's internal investment managers shall sign a Receipt of Investment Policy. The Receipt of Investment Policy (see Appendix B) states that the broker-dealer:
- A. Has received, read, and understands the Policy;
  - B. Has communicated the requirements of the Policy to all personnel who may select investment opportunities for presentation to PTSC.

Failure to submit a Receipt of Investment Policy shall preclude PTSC from purchasing or selling securities from such broker-dealer. Completed receipts shall be filed in the Treasurer's Office.

## **7.0 Custody and Safekeeping of Securities and PTSC Funds**

- 7.1 Securities and collateral for repurchase agreements shall be purchased and maintained for the benefit of the PTSC in the Trust Department or safekeeping department of a bank as established by a written third party safekeeping agreement between the PTSC and the bank. Specific collateralization levels are defined in Section 5.1A.
- 7.2 All investment transactions shall be settled "delivery vs. payment", with the exception of deposits, mutual fund investments, and Local Agency Investment Fund or other Local Government Investment Pools. Delivery may be physical, via a nationally recognized securities depository such as the Depository Trust Company, or through the Federal Reserve Book Entry system.
- 7.3 Funds deposited by the PTSC shall be secured by a Depository in compliance with the requirements of California Government Code Section 53652. Such collateralization shall be designated and agreed to in writing.
- 7.4 Original copies of negotiable certificates of deposit shall be held in a qualified safekeeping institution.

## 8.0 Reports and Communications

- 8.1 The Treasurer is responsible for ensuring compliance with all applicable Local, State, and Federal laws governing the reporting of investments made with public funds. All investment portfolios will be monitored for compliance. Non-compliance issues will be included in the quarterly Board report as stated in Section 8.3 of this Policy.
- 8.2 The Treasurer shall annually submit a statement of investment policy to the Board for approval. The existing approved policy will remain in effect until the Board approves the recommended statement of investment policy.
- 8.3 The Treasurer shall render a quarterly cash, investment, and transaction report to the CEO and Board, and quarterly to the Internal Auditor within 30 days following the end of the quarter covered by the report. The report shall include a description of PTSC's funds, investments, or programs that are under the management of contracted parties, including lending programs. The report shall include as a minimum:
- A. Portfolio Holdings by Type of Investment and Issuer
  - B. Maturity Schedule and Weighted Average Maturity (at market)
  - C. Weighted Average Yield to Maturity
  - D. Return on Investments versus Performance Benchmarks on a quarterly basis
  - E. Par, Book and Market Value of Portfolio for current and prior quarter-end
  - F. Percentage of the portfolio represented by each investment category
  - G. Total Interest Earned
  - H. Total Interest Received
  - I. A statement of compliance with this policy, or notations of non-compliance.
  - J. At each calendar quarter-end a subsidiary ledger of investments will be submitted with the exception listed in 8.3J.
  - K. For investments that have been placed in the Local Agency Investment Fund, in Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association, in National Credit Union Administration insured accounts in a credit union, in a county investment pool, or in shares of beneficial interest issued by a diversified management company that invest in the securities and obligations as authorized by this Policy and the Code, the most recent statement received from these institutions may be used in lieu of the information required in 8.3I.
  - L. At each calendar quarter-end the report shall include a statement of the ability to meet expenditure requirements for the next six months.
- 8.4 Internal and external investment managers shall monitor investments and market conditions and report on a regular and timely basis to the PTSC Treasurer.



- A. Internal and external investment managers shall submit monthly reports to the Treasurer, such reports to include all of the information referenced in Section 8.3, items A-J of this policy. Portfolios shall be marked-to-market monthly and the comparison between historical cost (or book value) and market value shall be reported as part of this monthly report.
- B. Internal and external investment managers shall monitor the ratings of all investments in their portfolios on a continuous basis and report all credit downgrades of portfolio securities to the Treasurer in writing within 24 hours of the event. If an existing investment's rating drops below the minimum allowed for new investments made pursuant to this policy, the investment manager shall also make a written recommendation to the Treasurer as to whether this security should be held or sold.
- C. External and internal Investment Managers shall immediately inform the Treasurer, Executive Officer, Finance, and Chief Financial Officer in writing of any major adverse market condition changes and/or major portfolio changes. The Executive Officer, Finance shall immediately inform the Board in writing of any such changes.
- D. External investment managers shall notify the PTSC internal managers daily of all trades promptly, via fax.
- E. Internal investment managers will maintain a file of all trades.

## **9.0 Portfolio Guidelines**

Portfolio Guidelines are the operating procedures used to implement the Investment Policy approved by the Board. The Treasurer may impose additional requirements or constraints within the parameters set by the Investment Policy.

## **10.0 Internal Control**

- 10.1 The Treasurer shall establish a system of internal controls designed to prevent losses of public funds arising from fraud, employee or third party error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by PTSC employees or agents. Such internal controls shall be approved by the Executive Officer, Finance and shall include authorizations and procedures for investment transactions, custody/safekeeping transactions, opening and closing accounts, wire transfers, and clearly delineate reporting responsibilities.
- 10.2 Treasury personnel and PTSC officials with signature authority shall be bonded to protect against possible embezzlement and malfeasance, or at the option of the governing board self-insured.
- 10.3 Electronic transfer of funds shall be executed upon the authorization of two official signatories.
- 10.4 Transaction authority shall be separated from accounting and record keeping responsibilities.
- 10.5 All investment accounts shall be reconciled monthly with custodian reports and broker confirmations by a party that is independent of the investment management function. Discrepancies shall be brought to the attention of the investment manager, the Treasurer, the Controller, and if not resolved promptly, to the Executive Officer, Finance.

- 10.6 The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide independent confirmation of compliance with policies and procedures.
- 10.7 The Treasurer is responsible for the preparation of the PTSC's cash flow model. The cash flow model shall be updated monthly based upon the PTSC's actual and projected cash flow.

Annually, the Treasurer shall notify the external investment managers of the PTSC's cash flow requirements for the next twelve months. The Treasurer shall monitor actual to maximum maturities within the parameters of this policy.

- 10.8 The Treasurer shall annually submit the Financial Institutions Resolution to the Board for approval. The existing resolution will remain in effect until the Board approves the recommended resolution.

**11.0 Purchasing Guidelines**

- 11.1 Investment managers shall purchase and sell securities at the price and execution that is most beneficial to the PTSC. The PTSC's liquidity requirements shall be analyzed and an interest rate analysis shall be conducted to determine the optimal investment maturities prior to requesting bids or offers. Investments shall be purchased and sold through a competitive bid/offer process. Bids/offers for securities of comparable maturity, credit and liquidity shall be received from at least three financial institutions, if possible.
- 11.2 Such competitive bids/offers shall be documented on the investment managers' trade documentation. Supporting documentation from the Wall Street Journal, Bloomberg or other financial information system shall be filed with the trade documentation as evidence of general market prices when the purchase or sale was effected.

**12.0 Benchmarks**

Internal and external investment managers' performance shall be evaluated against the following agreed upon benchmarks. If the investment manager does not meet its benchmark over a market cycle (3 to 5 years), the Treasurer shall determine and set forth in writing to the Executive Officer, Finance reasons why it is in the best interests of the PTSC to replace or retain the investment manager.

<u>Portfolio</u>	<u>Investment Benchmarks</u>
Intermediate Duration Portfolios	Merrill Lynch 1-3 year Government & Corporate Index
Short Duration Portfolios	Three month Treasury Bill

## SUMMARY OF AUTHORIZED INVESTMENT TYPES &amp; RESTRICTIONS \*

\* See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

\*\* The percentage of portfolio authorized is based on market value.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
1.	Bonds Issued by the Authority.	100%	Maximum effective maturity of five (5) years unless a longer maturity is approved by Board of Directors, either specifically or as part of an investment program, at least three (3) months prior to purchase.
2.	United States Treasury notes, bonds, bills or certificates of indebtedness or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.	100%	Same as above
3.	Registered state warrants or treasury notes or bonds of the State of California.	25%	Same as above. Such obligations must be rated A1, SP-1 or equivalent or better short term; or Aa/AA or better long term, by a national rating agency.
4.	Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California.	25%	Same as above
5.	Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, the Federal Home Loan Banks, the Tennessee Valley Authority, or in obligations, participations or other instruments of or issued by, a federal agency or a United States Government-sponsored enterprise.	50%	No more than 15% of the portfolio may be invested in any one Federal Agency or government-sponsored issue.

**SUMMARY OF AUTHORIZED INVESTMENT TYPES & RESTRICTIONS \***

\* See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

\*\* The percentage of portfolio authorized is based on market value.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
6.	Bill of exchanges or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc., and Standard & Poor's Corporation.	40%	Purchases of bankers acceptances may not exceed 180 days maturity. No more than 10% of the portfolio may be invested in any one bank or corporate issuer.
7.	Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc., or Standard & Poor's Corporation. Eligible paper is further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000) and having an "A" or higher rating for the issuer's debentures, other than commercial paper, if any, as provided for by Moody's Investors Service, Inc. or Standard & Poor's Corporation.	25%	Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of an issuing corporation.  No more than 10% of the portfolio may be invested in any one Corporate or bank issuer. If rated by more than one service, both ratings must meet the minimum criteria.
8.	Negotiable certificates of deposits issued by a nationally or state-chartered bank or a state or federal savings and loan association, a state or federal credit union, or by a state-licensed branch of a foreign bank. The legislative body of the local agency, the treasurer or other official of the local agency having custody of the money are prohibited from investing in negotiable certificates of deposit of a state or federal credit union if a member of the legislative body or any other specified city officer or employee also serves on the board of directors or certain committees of that credit union.	30%	Maximum maturity of five (5) years unless a longer maturity is approved by Board of Directors, either specifically or as part of an investment program, at least three (3) months prior to purchase. No more than 10% of the portfolio may be invested in any one bank name.

## SUMMARY OF AUTHORIZED INVESTMENT TYPES &amp; RESTRICTIONS \*

\* See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

\*\* The percentage of portfolio authorized is based on market value.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
9.	<p>Investments in repurchase agreements or securities lending agreement. The repurchase agreement must be covered by a master written agreement in the form of the current Public Securities Association agreement. The securities lending agreement must be covered by a Masters Securities Loan Agreement.</p> <p>Repurchase agreements and securities lending agreements shall be collateralized at all times. Collateral shall be limited to obligations of the United States and Federal Agencies with an initial margin of at least 102% of the value of the investment, and shall be in compliance if brought back up to 102% no later than the next business day. Collateral shall be delivered to a third party custodian in all cases. Collateral for term repurchase agreements shall be valued daily by the PTSC's investment manager (for internal funds) or external investment manager. Investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day. The Authority shall obtain a first lien and security interest in all collateral.</p>	20%	<p>See CA Government Code Section 53601, (i)</p> <p>Term of repurchase agreement cannot exceed 90 days.</p> <p>Repurchase agreements shall be executed through Primary Broker-Dealers.</p> <p>Reverse repurchase agreements are prohibited.</p>
10.	<p>Medium-term 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.</p>	30%	<p>Maximum five (5) year maturity. Notes must be rated "A" or its equivalent or better by a nationally recognized rating service.</p> <p>No more than 10% of the portfolio may be invested in one bank or corporate name. If rated by more than one rating service, both ratings must meet the minimum credit standards.</p>

## SUMMARY OF AUTHORIZED INVESTMENT TYPES &amp; RESTRICTIONS \*

\* See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

\*\* The percentage of portfolio authorized is based on market value.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
11.	Shares of beneficial interest issued by diversified management companies investing in the securities and obligations as authorized, by California State Code 53601 and 53630 et seq.	20% maximum in any one or more money market fund, with no more than 10% of the total in any one bond mutual fund.	Companies must have either 1) the highest ranking or the highest letter and numerical rating provided by not less than two of the nationally recognized rating services, or (2) retained an investment advisor registered or exempt with the Securities and Exchange Commission, with no less than five years experience investing in A) Bond Funds: the securities and obligations authorized by State Code §53601 a-j inclusive and l or m; or B) Money Market Mutual Funds: money market mutual funds; both with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price may not include any commissions charged by these companies.

**SUMMARY OF AUTHORIZED INVESTMENT TYPES & RESTRICTIONS \***

\* See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

\*\* The percentage of portfolio authorized is based on market value.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
12.	State of California Local Agency Investment fund (LAIF) California Government Code Section 16429.1 through 16429.4, or other Local Government Investment Pools (LGIP) established by public California entities.		Maximum investment in individual Local Government Investment Pools limited to amounts permitted by California Government Code (CGC). Limit does not include funds required by law, ordinance, or statute to be invested in pool. Each pool must be evaluated and approved by the Treasurer, as to credit worthiness, security, and conformity to state and local laws. An evaluation should cover, but is not limited to establishing, a description of who may invest in the program, how often, what size deposit and withdrawal; the pool's eligible investment securities, obtaining a written statement of investment policy and objectives, a description of interest calculations and how it is distributed; how gains and losses are treated; a description of how the securities are safeguarded and how often the securities are priced and the program audited. A schedule for receiving statements and portfolio listings. A fee schedule, and when and how fees are assessed.

**SUMMARY OF AUTHORIZED INVESTMENT TYPES & RESTRICTIONS \***

\* See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

\*\* The percentage of portfolio authorized is based on market value.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
13.	Asset-backed securities	15% combined with any mortgage-backed securities	Limited to senior class securities with effective maturities of no more than 5 years. Further limited to securities rated in a rating category of "AAA", and issued by an issuer having an "A" or higher rating for the issuer's debt as provided for by a nationally recognized rating service. Further limited to fixed rate, publicly offered, generic credit card and automobile receivables only. Deal size must be at least \$250 million, and tranche size must be at least \$25 million.



## SUMMARY OF AUTHORIZED INVESTMENT TYPES &amp; RESTRICTIONS \*

\* See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

\*\* The percentage of portfolio authorized is based on market value.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
14.	Mortgage-backed securities	15% combined with any asset-backed securities	<p>Pass-Through securities: Limited to Government Agency or Government Sponsored issuers, fixed rate, effective maturity of 5 years.</p> <p>CMOS: Limited to Government Agency or Government Sponsored Issuers "AAA" rated Planned Amortization Classes (PAC) only. The following are prohibited: ARMS, floaters, interest or principal (IOs, POs), Targeted Amortization Classes, companion, subordinated, collateral classes, or zero accrual structures.</p>

## APPENDIX A

# PUBLIC TRANSPORTATION SERVICES CORPORATION

## CERTIFICATION OF UNDERSTANDING

The Public Transportation Services Corporation (PTSC) Investment Policy as approved by the Board of Directors requires that all Financial Institutions and Investment Managers doing business with the agency sign a Certification of Understanding acknowledging that:

1. *You have read and are familiar with the PTSC's Investment Policy as well as applicable Federal and State laws.*
2. *You meet the requirements as outlined in PTSC's Investment Policy.*
3. *You agree to make every reasonable effort to protect the assets of the PTSC from loss.*
4. *You agree to notify PTSC in writing of any potential conflicts of interest.*
5. *You agree to notify PTSC in writing of any changes in personnel with decision-making authority over PTSC funds within 24 hours of such event.*

Failure to submit a Certification of Understanding shall result in the withdrawal by the PTSC of all funds held by the financial institution or investment manager and the immediate revocation of any rights to act as an agent of PTSC for the purchase of securities or investment of funds on behalf of PTSC.

The Board of Directors is committed to the goals of the Community Reinvestment Act (CRA). As part of the certification process for depository institutions, it is requested that you remit evidence of your most recent CRA rating.

SIGNED: \_\_\_\_\_ DATE: \_\_\_\_\_  
Print Name and Title \_\_\_\_\_

After reading and signing this Certification of Understanding please return with *any* supporting documentation to:

PTSC  
Treasury Department  
Attention: Treasurer  
One Gateway Plaza  
Los Angeles, CA 90012-2932

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**PTSC use only:**

Approved: \_\_\_\_\_ Disapproved: \_\_\_\_\_ Date: \_\_\_\_\_

Signature: \_\_\_\_\_  
PTSC Treasurer

**APPENDIX B**

**PUBLIC TRANSPORTATION SERVICES CORPORATION**

**BROKER-DEALER RECEIPT OF INVESTMENT POLICY**

We are in receipt of the Public Transportation Services Corporation (PTSC) Investment Policy.

We have read the policy and understand the provisions and guidelines of the policy. All salespersons covering PTSC's account will be made aware of this policy and will be directed to give consideration to its provisions and constraints in selecting investment opportunities to present to PTSC.

Signed \_\_\_\_\_  
Name Name  
  
\_\_\_\_\_  
Title Title  
  
\_\_\_\_\_  
Firm Name  
  
\_\_\_\_\_  
Date Date

After reading and signing this Receipt of Investment Policy, please return with supporting documentation to:

PTSC  
Treasury Department  
Attention: Treasurer  
One Gateway Plaza  
Los Angeles, CA 90012-2932

**PTSC use only:**  
Approved: \_\_\_\_\_ Disapproved: \_\_\_\_\_ Date: \_\_\_\_\_  
Signature: \_\_\_\_\_  
PTSC Treasurer

APPENDIX C

PUBLIC TRANSPORTATION SERVICES CORPORATION

BROKER/DEALER QUESTIONNAIRE

1. Name of Firm \_\_\_\_\_

2. Address \_\_\_\_\_  
(Local) (National Headquarters)

\_\_\_\_\_  
\_\_\_\_\_

3. Telephone No. ( ) \_\_\_\_\_ Telephone No. ( ) \_\_\_\_\_  
(Local) (National Headquarters)

4. Primary Representative	Manager/Partner-in-Charge
Name _____	Name _____
Title _____	Title _____
Telephone No. _____	Telephone No. _____
No. of Yrs. in Institutional Sales _____	No. of Yrs. in Institutional Sales _____
Number of Years with Firm _____	Number of Years with Firm _____

5. Are you a Primary Dealer in U.S. Government Securities? .  
 YES  NO

If NO, Is the parent company or its subsidiary a Primary Dealer in U.S. Government Securities? Provide proof of certification.

YES  NO

Please explain your firm's relationship to the Primary Dealer below:

\_\_\_\_\_  
\_\_\_\_\_

Please provide proof certification from the National Association of Securities Dealer.

6. Are you a Broker instead of Dealer, i.e., you DO NOT own positions of Securities?  
 YES  NO

7. What is the net capitalization of your Firm? \_\_\_\_\_

8. What is the date of your Firm's fiscal year-end? \_\_\_\_\_

9. Is your Firm owned by a Holding Company? If so, what is its name and net capitalization?

\_\_\_\_\_

10. Please provide your Wiring and Delivery Instructions.

\_\_\_\_\_  
\_\_\_\_\_

11. Which of the following instruments are offered regularly by your local desk?

T-Bills     Treasury Notes/Bonds     Discount Notes     NCD's  
 Agencies (specify) \_\_\_\_\_  
 BA's (Domestic)     BA's (Foreign)     Commercial Paper  
 Med-Term Notes     Repurchase Agreements

12. Does your Firm specialize in any of the instruments listed above?

\_\_\_\_\_

13. Please identify your comparable government agency clients in the PTSC's geographical area.

<u>Entity</u>	<u>Contact Person</u>	<u>Telephone No.</u>	<u>Client Since</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

14. What reports, confirmations, and other documentation would PTSC receive? Please include samples of research reports or market information that your firm regularly provides to government agency clients.

15. What precautions are taken by your Firm to protect the interests of the public when dealing with government agencies as investors?

\_\_\_\_\_  
\_\_\_\_\_

16. Have you or your Firm been censored, sanctioned or disciplined by a Regulatory State or Federal Agency for improper or fraudulent activities, related to the sale of securities within the past five years?  YES  NO

17. If yes, please explain

\_\_\_\_\_

18. Please provide your most recent audited financial statements within 120 days of your fiscal year-end.

19. Please indicate the current licenses of the PTSC representatives:

Agent: \_\_\_\_\_ License or registration: \_\_\_\_\_

## APPENDIX D

# PUBLIC TRANSPORTATION SERVICES CORPORATION

## INVESTMENT POLICY GLOSSARY

**ASKED:** The price at which securities are offered from a seller.

**BANKERS' ACCEPTANCE (BA):** 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 (or issuer - 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.

**BID:** The price offered by a buyer of securities.

**BOOK VALUE:** The original cost of the investment, plus accrued interest and amortization of any premium or discount.

**BROKER:** A broker brings buyers and sellers together for a commission.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable (marketable or transferable).

**COLLATERAL:** Securities, evidence of deposit, or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public moneys.

**COMMERCIAL PAPER (CP):** Unsecured promissory notes issued by companies and government entities 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.

**CUSTODY or SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

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

## **FEDERAL AGENCIES AND U.S. GOVERNMENT SPONSORED ENTERPRISES**

**(AGENCIES):** U.S. Government related organizations, the largest of which are government financial intermediaries assisting specific credit markets (housing, agriculture). They include:

- ◆ Federal Home Loan Banks (FHLB)
- ◆ Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)
- ◆ Federal National Mortgage Association (FNMA or “Fannie Mae”)
- ◆ Federal Farm Credit Banks (FFCB)
- ◆ Student Loan Marketing Association (SLMA or “Sallie Mae”)
- ◆ Tennessee Valley Authority (TVA)

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase/reverse repurchase agreements that establishes each party’s rights in the transactions. A master agreement will specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

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

**MEDIUM TERM NOTES (MTN):** Interest bearing, continuously offered debt, issued in the 9 month to ten year maturity range. Deposit notes, like Certificates of Deposit, actually represent an interest bearing deposit at a bank or other depository institution.

**OFFER:** The price asked by a seller of securities.

**PAR VALUE:** The face value, or principal amount payable at maturity.

**PRIMARY DEALER:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York, and are subject to its informal oversight.

**REPURCHASE AGREEMENT (RP OR REPO):** 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, whereby the security “buyer” in effect lends the “seller” money for the period of the agreement, and the difference between the purchase price and sale price determining the earnings. Dealers use RP extensively to finance their positions.

**SECURITIES & EXCHANGE COMMISSION (SEC):** An agency created by Congress to protect investors in securities transactions by administering securities legislation.

**TREASURY BILLS:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**TREASURY NOTES AND BONDS:** Long-term U.S. Treasury securities having initial maturities of 2 to 30 years.



**YIELD:** The rate of annual income return on an investment, expressed as a percentage.

**YIELD TO MATURITY (YTM):** The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.