

INVESTMENT POLICY

I. PURPOSE

This statement contains guidelines for the prudent investment of MBCP's cash balances in accordance with California Government Code sections 53600, et. seq. The overarching goal of MBCP's Investment Policy is to protect MBCP's pooled cash while producing a reasonable rate of return on investments.

II. STANDARD OF CARE

The standard of prudence to be used by investment officials will be the "prudent investor" standard, which states that, "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."

III. SCOPE

This Investment Policy applies to all funds and investment activities of MBCP. This Policy does not apply to the investment of bond proceeds, which would be governed by any applicable bond documents.

IV. OBJECTIVES

The primary objectives, in priority order, of the investment activities of MBCP are:

1. **Safety of Principal** – Preservation of principal is the foremost objective of MBCP.
2. **Liquidity** – MBCP's portfolio will remain sufficiently liquid to enable MBCP to meet its cash flow requirements. It is important that the portfolio contain investments which provide the ability of being easily sold at any time with minimal risk of loss of principal or interest.
3. **Return on Investment** – MBCP's investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and cash flow needs.

Delegation of Authority

Pursuant to California Government Code Section 53607, the Treasurer (and his/her designee, if necessary) is authorized to invest and reinvest money of MBCP, to sell or exchange securities so

purchased, and to deposit such securities for safekeeping in accordance with and subject to this investment policy.

MBCP may engage the support services of outside investment advisors in regard to its investment program, so long as these services are likely to produce a net financial advantage or necessary financial protection of MBCP's financial resources. Outside investment advisors must be approved by the Chief Executive Officer, the Treasurer and the Board of Directors. MBCP will be responsible for managing the investment advisors.

Conflict of Interest

The authorized employees involved in the investment process will refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

Pursuant to MBCP's Conflict of Interest Code, the authorized employees will disclose any financial interests and investment holdings that could affect the performance of MBCP's portfolio or the individual's judgement or decisions regarding MBCP's portfolio.

Authorized Financial Dealers and Institution

The purchase by MBCP of any investment other than those purchased directly from the issuer, will be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporations Code, which is a member of the Financial Industry Regulatory Authority (FINRA), or 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 a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

The Treasurer is responsible for the evaluation of all institutions that wish to do business with MBCP, to determine if they are adequately capitalized, staffed by qualified investment professionals, and agree to abide by the conditions set forth in MBCP's Investment Policy and any other guidelines that may be provided. This will be done annually by having the financial institutions:

1. Provide written notification that they have read, and will abide by, MBCP's Investment Policy.
2. Submit their most recent audited Financial Statements within 120 days of the institution's fiscal year end.

If MBCP has an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of MBCP.

Purchase and sale of securities will be made on the basis of best execution.

Authorized Investments

Acceptable investments authorized for purchase or behalf of MBCP are:

1. **Deposits at Bank(s)** – Funds may be invested in non-interest-bearing depository accounts to meet MBCP’s operating and collateral needs. Funds not needed for these purposes will be invested in interest-bearing depository or investment accounts such as Public Fund Money Market and Insured Cash Sweep accounts, or Certificates of Deposit.

Banks eligible to receive deposits will be federally or state chartered and will confirm to California Government Code 53635.2.

2. **U.S. Treasury obligations** for which the full faith and credit of the United States are pledged for the payment of principal and interest.

3. **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.

4. **Obligations of the State of California or any local agency within the state,** including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency, or by a department, board, agency or authority of the state or any local agency that is rated in a rating category of “A” or its equivalent or better by a nationally recognized statistical-rating organization (NRSRO). Purchases of the obligations described in this subdivision and in subdivision 4 (registered treasury notes or bonds of any of the other 49 states in addition to California) collectively may not exceed 20% of MBCP’s portfolio.

5. **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 these states that is rated in a rating category of “A” or its equivalent or better by an NRSRO. Purchases of the obligations described in this subdivision and in subdivision 3 (obligations of the State of California or any local agency within the state) collectively may not exceed 20% of MBCP’s portfolio.

6. **Commercial Paper** of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper must meet all of the following conditions in either paragraph a or paragraph b:

- a. The entity meets the following criteria: (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of five hundred million dollars (\$500,000,000), and (iii) has debt other than commercial paper, if any, that is rated in a rating category of “A” or its equivalent or higher by an NRSRO.
- b. The entity meets the following criteria: (i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond, and (iii) has commercial paper that is rated “A-1” or higher, or the equivalent, by an NRSRO.

Eligible commercial paper will have a maximum maturity of 270 days or fewer. No more than 20% of MBCP’s portfolio may be invested in commercial paper. MBCP may purchase no more than 10% of the outstanding commercial paper of any single issuer. No more than 5% of the outstanding commercial paper investments can be invested in the Energy industry/sector.

7. Repurchase Agreements. Overnight Repurchase Agreements shall be used solely as short-term investments not to exceed 3 days.

8. Local Agency Investment Fund (State Pool) - An investment pool managed by the State Treasurer. MBCP can invest up to the maximum amount permitted by the State Treasurer.

9. County Investment Fund (County Pool) - Shares of beneficial interest issued by a joint powers authority (Local Government Investment Pools or “Pool”) organized pursuant to California Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions to (q) of California Government Code Section 53601, inclusive. Each share will represent an equal proportional interest in the underlying pool of securities owned by the Joint Powers Authority. The Pool will be rated in a rating category “AAA” or its equivalent by a NRSRO. To be eligible under this section, the shares will maintain a stable net asset value (NAV) and the joint powers authority issuing the shares will have retained an investment adviser that meets all of the following criteria:

- a. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
- b. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q) California Government Code Section 53601, inclusive.
- c. The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

Restriction on Investment Policies and MBCP Constraints

Section 53600 et. seq. of the State of California Government Code outlines the collateral requirements for certain types of investments and also limits the percentage of total investments which can be placed in certain classifications. Investments must meet the time schedules as indicated by the cash flow projections of MBCP. Investments will be purchased with the intent to hold until maturity, however this will not preclude the sale of securities prior to maturity in order to reposition the portfolio's duration, credit quality, or enhance the rate of return.

Maturity Limit

State law requires that the maturity of any given instrument should not exceed five years unless specifically approved by MBCP Board of Directors at least three months before the investment is made. Maximum Maturity for MBCP's investments shall be limited to 2 years.

Internal Control

The Treasurer is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance that the assets of MBCP are protected from loss, theft or misuse. The MBCP Treasurer or his/her designee shall arrange for an annual audit by an external CPA firm in compliance with the requirements of state law and generally accepted accounting principles as pronounced by the GASB (Governmental Accounting Standards Board). As part of the audit, investment transactions will be tested. The annual audit will be an integral part, but not the sole part of management's program of monitoring internal controls.

Performance Standards

MBCP's portfolio shall be structured to achieve a market-average rate of return through various economic cycles, commensurate with the investment risk constraints and the cash flow needs. Investment performance will be calculated on a gross basis before fees and expenses and tracked monthly for internal use and monitoring.

Reporting Requirements

The Treasurer will provide a year-to-date investment summary to the Board of Directors on a monthly basis. The summary will show the type of investment, the average balance of funds invested, and average annual percentage yield.

Policy Review

This Investment Policy will be reviewed at least annually to ensure its consistency with:

1. The California Government Code sections that regulate the investment and reporting of public funds.
2. The overall objectives of preservation of principal, sufficient liquidity, and a market return.

Glossary

Broker-Dealer is a person or a firm who can act as a broker or a dealer depending on the transaction. A broker brings buyers and sellers together for a commission. They do not take a position. A dealer acts as a principal in all transactions, buying and selling for his own account.

Collateral refers to securities, evidence of deposits, or other property that a borrower pledges to secure repayment of a loan. It also refers to securities pledged by a bank to secure deposits. In California, repurchase agreements, reverse repurchase agreements, and public deposits must be collateralized.

Commercial Paper is a short term, unsecured, promissory note issued by a corporation to raise working capital.

Duration is a measure of the sensitivity of the price of a security or a portfolio of securities to a change in interest rates, typically stated in years.

Federal Agency Obligations are issued by U.S. Government Agencies or Government Sponsored Enterprises (GSE). Although they were created or sponsored by the U.S. Government, most Agencies and GSEs are not guaranteed by the United States Government. Examples of these securities are notes, bonds, bills and discount notes issued by Fannie Mae (FNMA), Freddie Mac (FHLMC), the Federal Home Loan Bank system (FHLB), and Federal Farm Credit Bank (FFCB). The Agency market is a very large and liquid market, with billions traded every day.

Issuer means any corporation, governmental unit, or financial institution that borrows money through the sale of securities.

Liquidity refers to the ease and speed with which an asset can be converted into cash without loss of value. In the money market, a security is said to be liquid if the difference between the bid and asked prices is narrow and reasonably sized trades can be done at those quotes.

Local Agency Investment Fund (LAIF) is a special fund in the State Treasury that local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum of \$65 million for any California public agency. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via direct deposit to the agency's

LAIF account. The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of one per cent of the earnings.

Local Government Investment Pools (LGIP) are investment tools similar to money market funds that allow public entities to invest funds.

Maturity is the date upon which the principal or stated value of an investment becomes due and payable.

Money Market Fund is a type of investment comprising a variety of short-term securities with high quality and high liquidity. The fund provides interest to shareholders. Eligible money market funds must strive to maintain a stable net asset value (NAV) of \$1 per share.

Net Asset Value (NAV) is the value of an entity's assets minus the value of its liabilities, often in relation to open-end or mutual funds, since shares of such funds registered with the U.S. Securities and Exchange Commission are redeemed at their net asset value. Money Market funds that MBCP is authorized to invest in are required to maintain an NAV of \$1.00 at all times.

Principal describes the original cost of a security. It represents the amount of capital or money that the investor pays for the investment.

Repurchase Agreements are short-term investment transactions. Banks buy temporarily idle funds from a customer by selling him U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date at an agreed upon interest rate. Repurchase Agreements are typically for one to ten days in maturity. The customer receives interest from the bank. The interest rate reflects both the prevailing demand for Federal Funds and the maturity of the Repo. Repurchase Agreements must be collateralized.

U.S. Treasury Issues are direct obligations of the United States Government. They are highly liquid and are considered the safest investment security. U.S. Treasury issues include:

1. **Treasury Bills** which are non-interest-bearing discount securities issued by the U.S. Treasury to finance the national debt. Bills are currently issued in one, three, six, and twelve-month maturities.
2. **Treasury Notes** that have original maturities of one to ten years.
3. **Treasury Bonds** that have original maturities of greater than 10 years.