1.0 INTRODUCTION

It is the policy of the Santa Clara Valley Transportation Authority (VTA) to invest VTA's Retirees' Other Post-Employment Benefits (OPEB) Trust funds in a diversified investment portfolio structured to minimize risk of loss and to maximize rate of return, consistent with the authority provided by California Government Code Sections 53620 through 53622. Trust assets are used solely for the purposes of paying OPEBs to, or for the benefit of, beneficiaries of the Trust, and for paying reasonable expenses of administering the Trust.

In accordance with the Declaration of Trust for the Santa Clara Valley Transportation Authority (SCVTA) Retirees' Other Post Employment Benefits (OPEB) Trust (the "Trust"), the Board of Directors (Board) serve as the Trustee of the Trust. The Trustee has elected to appoint the General Manager as Administrator of the Trust and further delegated all powers necessary to the General Manager to ensure the efficient and effective administration of the Trust. The Trustee, the Administrator, and the Trust shall be governed by the fiduciary requirements of Section 17, Article XVI of the California Constitution.

2.0 SCOPE

This policy covers all VTA OPEB funds held in trust and invested for the purpose of meeting the obligations under its OPEB defined benefit programs.

3.0 PRUDENCE

The standard of prudence to be used by investment officials (including, but not limited to, the Trustee and Administrator) shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The prudent person standard states, "investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived."

The investment program shall be designed and managed with a degree of professionalism that is worthy of public trust. VTA shall recognize that no investment is totally without risk and that the investment activities of VTA are a matter of public record. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 ETHICS AND CONFLICT OF INTEREST

The Trustee, Administrator and employees involved in the investment process shall 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. VTA employees and officials involved in the investment process shall do the following (1) familiarize themselves and comply with by the VTA's Code of Ethics, as set forth in the VTA Administrative Code, (2) disclose to the General Manager any material financial interests in financial institutions that conduct business with VTA, (3) disclose any personal financial/investment positions that could be related to the performance of the VTA's portfolio, and (4) file annually a Statement of Economic Interest with the Office of the Clerk of the Board of Santa Clara County.

5.0 ROLES AND RESPONSIBILITIES

5.1 TRUSTEE. The Trustee shall:

5.1.1 Establish and maintain reasonable investment objectives and an Investment Policy for the investment of Trust assets.

5.1.2 Determine the Trust’s asset allocation and risk tolerance level.

5.1.2.1 The Trustee may engage professional investment consultants or advisors to conduct periodic asset liability studies and portfolio structure analysis of the Trust on a periodic basis in order to assist in establishing asset allocation and risk tolerance level.

5.1.3 Approve investment managers or mutual funds for the investment of Trust assets in accordance with the approved asset allocation strategy.

5.1.4 Monitor and evaluate performance results to assure that objectives are being met and policy guidelines are followed.

5.2 ADMINISTRATOR/GENERAL MANAGER. Pursuant to the Trust, the Trustee has appointed the General Manager as Administrator of the Trust, and has delegated to the General Manager all powers necessary to ensure the efficient and effective administration of the Trust. Pursuant to this power, the Administrator shall:

5.2.1 Appoint an Investment Committee of 3 to 5 members.

5.2.2 Employ counsel, fund managers, brokers, actuaries, consultants, and other agents to provide investment, actuarial and other services as the Administrator may deem advisable to perform duties under the Trust, or as may be directed by the Trustee.

5.2.3 Ensure on-going compliance with approved investment objectives and this investment policy.

5.3 INVESTMENT COMMITTEE. The Investment Committee shall consist of 3-5 members appointed by the Administrator of the Trust. The Investment Committee shall:

5.3.1 Monitor and evaluate performance results to ensure that objectives are being met and policy guidelines are being followed.

5.3.2 Take appropriate action if objectives are not being met or if policy guidelines are not being followed, including a quarterly rebalancing of trust assets to meet asset allocation targets.
5.3.3 Make recommendations to the Administrator regarding the selection and retention of external service providers, including fund managers/mutual funds.
5.3.4 Review Investment Policy on an annual basis and recommend changes as necessary to ensure the Investment Program meets the overall objectives of the Trust.
5.3.5 Monitor downgraded securities, and report such downgrades to the Administrator with recommended actions, of any.
5.3.6 Review and recommend the assumed rate of return to the Administrator.

5.4 INVESTMENT CONSULTANT. The Investment Consultant shall:

5.4.1 Perform asset allocation studies and recommend asset allocation strategies to the Trustee.
5.4.2 Monitor, evaluate, and report, at least quarterly, to the Investment Committee on performance (note: reporting should not be duplicated when fund or fund manager is reviewed as part of the administration of the VTA/ATU Pension Plan).
5.4.3 Participate with the Investment Committee in the periodic review of the Investment Policy.
5.4.4 Update the Investment Committee on material changes in the regulatory environment that affects the investment objectives and policy.
5.4.5 Assist in the selection and monitoring of external service providers and investment managers.
5.4.6 Educate the Investment Committee, Administrator and Trustee on current trends and best practices.

5.5 INVESTMENT MANAGER. With respect to allocated assets, the Investment or Fund Manager shall be responsible for**:**

5.5.1 Determining the investment strategy within the policy guidelines established by the Trustee.
5.5.2 Implement security selection and timing within Board policy guidelines.
5.5.3 Supply timely written reports of investment performance results to the Investment Services Department.
5.5.4 Meet with the Trustee or Investment Committee on a regular basis.
5.5.5 Update the Board or Investment Committee on material changes in the regulatory environment or the firm that affect the investment objectives and guidelines.

5.6 CUSTODIAN. The Custodian shall:
5.6.1 Fulfill all fiduciary and legal duties required of a safekeeping custodian of the Trust's assets.

5.6.2 Invest the Trust's assets as directed by the investment managers.

5.6.3 Provide the Investment Services Department with written statements detailing the assets of the Trust at current market and book values and account for all transactions.

6.0 INVESTMENT OBJECTIVES, ASSET ALLOCATION AND REBALANCING

6.1 INVESTMENT OBJECTIVE is to have a well managed investment program that provides for the financial needs of the Trust and that allows the Trust's investments to be appropriately diversified and prudently invested in order to minimize risk and maximize return.

6.2. ASSET ALLOCATION AND PERFORMANCE EXPECTATIONS. The OPEB Trust has a long term investment horizon, and utilizes an asset allocation methodology which encompasses a strategic, long-run perspective on capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the Trust's investment performance. Asset allocation modeling identifies asset classes the Trust will utilize, and the target percentage that each class will represent in the total fund. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. Appendix A outlines the Trust's current asset allocation targets and acceptable ranges.

6.3 REBALANCING. It is the policy of the Trust to maintain a consistent and disciplined asset allocation through active rebalancing of the investment portfolio. Rebalancing increases long-term portfolio returns while reducing risk. The investment portfolio should be rebalanced when an asset class breaches the upper or lower boundary of its target range. Appendix A outlines the Fund's current asset allocation targets and acceptable ranges.

7.0 INVESTMENT PROGRAM IMPLEMENTATION

7.1 MANAGER UTILIZATION. The Trust shall utilize externally managed portfolios based on the specific needs of the Trust. Each investment manager functions under a formal contract which delineates responsibilities and appropriate performance expectations. All managers will be expected to acknowledge in writing that they are fiduciaries and as such, will be expected to know and comply with applicable manager-specific portfolio guidelines. Portfolio performance will be evaluated relative to its adopted benchmark and peer group on a regular basis.

7.2. MANAGER AUTHORITY. The Trust's investment managers shall have discretion and authority to direct and manage the investment and reinvestment of assets, determine portfolio strategy, determine security selection and determine timing, for the assets under the manager's care, but within the guidelines of this policy. Investment managers shall have discretion to establish and execute transactions with established regional and national securities broker/dealers as needed. Investment managers are required to achieve best available prices and most favorable executions with respect to all portfolio transactions, as market conditions permit. It is each manager's responsibility to identify policies that may have an adverse impact on performance, and to initiate discussion with the Investment Services Department or the Investment Consultant toward possible improvement of said policies.

7.3 PROHIBITED INVESTMENTS. The following investments and investment activities are prohibited except when commingled/pooled investment vehicles are selected because investment firms have their own guidelines for commingled/pooled accounts.

7.3.1 Speculative, non-hedging transactions involving stock options, futures, or similar investment that leverage or increase the risk of the portfolio
7.3.2 Commodities
7.3.3 Letter stock, private placements, or direct placements
7.3.4 Close-end investment trusts
7.3.5 Purchase of securities on margin, or lending or borrowing money
7.3.6 Short sales or substantially similar transactions
7.3.7 Exotic derivatives that would materially change the duration, leverage or risk characteristics of the portfolio

7.4 PLACEMENT AGENTS. The Trustee may not utilize the services of third party "Placement Agents" as the term is defined under the Government Code 7513.8. However, Investment/Fund Managers may utilize the services of Placement Agents in limited circumstances, and use of such services must be approved in advance. The Trustee's investment consultant and each investment manager are required to complete and update the annual Disclosure of Placement Agent Relationships document, provided by VTA. All information included in the Disclosure of Placement Agent Relationships document shall be public records subject to disclosure under the California Public Records Act. Violations of this policy shall result in consideration of sanctions, including but not limited to termination of the contract with the investment manager.

8.0 PERFORMANCE REVIEW AND MEASUREMENT.

8.1 Investment Managers shall report monthly performance to the Investment Services Department and the Investment Consultant. In certain cases, quarterly reporting of performance data is acceptable when agreed upon in advance. All Investment Managers will be judged relative to benchmarks that reflect the objectives and characteristics of their mandate. The manager and the Trust's investment returns should meet or exceed the designated benchmark plus expenses over time.

8.2 The Investment Services Department shall prepare a report for the General Manager or his designee to be delivered each month to the Santa Clara Valley Transportation Authority's Administration and Finance Committee. The monthly report shall include the current market value, the source of the valuation, and the performance of each portfolio relative to the corresponding benchmark. The monthly report shall also include a statement of compliance with the investment policy.

8.3 The Investment Program Manager shall render a quarterly investment report to the General Manager that provides details of the portfolio holdings including type of investment, issuer, date of maturity, par value, and dollar amount invested in each security as well as any updates regarding material changes or concerns among the Trust's investment managers.

APPENDICES:

Appendix A. Asset Allocation and Target Ranges
Appendix B. Quality Standards

APPENDIX A: ASSET ALLOCATION AND PERFORMANCE

A.1 ASSET ALLOCATION.

Asset Class	Target	Target Range
Domestic Large Cap Equities:	50%	25 – 60%
Domestic Fixed Income:	48%	35 – 70%
Cash:	2%	0 – 5%

A.2 PERFORMANCE EXPECTATIONS. The rate of return on Trust's investments is expected to exceed, over a market cycle (four to seven years) the annualized rate of return of:

A.2.1. Inflation, as measured by the U.S. Consumer Price Index, by a minimum of 3 percentage points; or

A.2.2. The rate of return utilized as the actuarial rate of return; or

A.2.3 Target policy index composition composed of 50% (including 2% cash) of the Barclays Capital U.S. Aggregate Bond Index and 50% of the S&P 500 Index, which reflects the ongoing target asset allocation of the Trust's investments.

A.3 ACCEPTABLE LEVEL OF RISK. The risk level of the Trust's Investment Portfolio should be equivalent to, or less than the risk of the policy index as measured by historical volatility over rolling five-year periods.

A.4 REBALANCING OF ALLOCATIONS. The Trust's asset allocation (market value) relative to the targets shall be reviewed quarterly. If actual allocation falls below or rises above target range limits, (due to changing market environment or manager performance), action shall be taken to re-balance investments within the target ranges. General guidelines for re-balancing the portfolio are as follows:

1. Assets shall be reviewed for rebalancing at least quarterly.

2. Rebalancing will be accomplished during the quarter following the review. Assets may be allocated anywhere within the target range. If a particular asset class is above the maximum of the target range, efforts shall be made to re-balance to a point half way between the ongoing target and the maximum of the target range. If the particular asset class is below the minimum of the target range, efforts shall be made to re-balance to a point half way between the ongoing target and the minimum of the target range. The cash surplus within the Fund shall be used first

to rebalance the portfolios. If the cash surplus is not sufficient assets may be sold to provide cash necessary for re-balancing.

3. Assets shall first be taken from asset classes above the maximum range, then from asset classes above the ongoing target but below the maximum range.

4. Transfers shall first be made to asset classes below the minimum target ranges, then to the asset classes below the ongoing targets, unless it would be imprudent to increase the size of a particular asset class.

5. When market conditions warrant and when so approved by the Investment Committee, assets may be retained outside the target ranges.

APPENDIX B: QUALITY STANDARDS

A. FIXED INCOME SECURITIES. Fixed-income securities and cash equivalent investments shall be limited to investment grade, publicly traded bonds rated by Standard & Poor's, Moody's or other recognized rating services, and short-term cash equivalents, including short-term investment funds. Investment grade bonds shall have a minimum quality rating of Baa3 (Moody's) and BBB-(Standard & Poor's). The average quality of the Plan portfolio shall be A or better. At least 80% of the current market value of Pooled fixed income investment funds shall be invested in investment-grade securities. Not more than 5% of the market value of the fixed-income investments shall be held in the debt or equity securities of any one issuer, with the exception of the United States Government and its agencies.

If a bond is downgraded to a rating below the policy minimum rating of Baa3 (Moody's) and BBB-(Standard & Poor's), the Investment Manager is required to communicate that in writing, along with its recommendation of what it intends to do with the downgraded security, to the Administrator or Chief Financial Officer and Investment Services Manager. Should the money manager recommend holding the security, the Chief Financial Officer and the Investment Services Manager shall have the discretion to monitor the manager's decision over the course of the next quarter. If the Chief Financial Officer and the Investment Services Manager disagree with the manager's recommendation, the Chief Financial Officer and the Investment Services Manager shall have the authority to instruct the manager to sell the security. Any action taken shall be reported at the following Investment Committee meeting.

Retention of downgraded Residential Mortgage Backed Securities (RMBS) and Commercial Mortgage Backed Securities (CMBS)

The following applies only to existing holdings that have been downgraded: Investment managers shall not purchase new bonds under the following provisions:

1. The average credit quality of the fixed income portfolio shall be A or better.

2. Only securities that were rated AAA at purchase may be retained if they are later downgraded to below investment grade (below Baa3 or BBB-).

3. For each downgraded bond the investment manager wishes to retain, the manager is required to provide VTA with a security-specific cash flow and collateral pool credit analysis. This analysis must include a comparison of the current price of the bond, the expected disposition cost (representative market bid), and the net present value of expected cash flows. This retention thesis will be provided to VTA for both initial and subsequent downgrades.

4. The maximum allocation for retained downgraded RMBS and CMBS securities may not exceed 5% of the fixed income portfolio.

B. EQUITY SECURITIES. Equity securities shall be limited to publicly traded common and preferred stocks (both U.S. and non-U.S.) and convertible securities. Investments shall be limited to marketable securities. Not more than 15% of the current market value of equity investments shall be invested in convertible securities. Investments may be made in pooled funds, which follow the guidelines in this policy, which are substantially similar or more conservative than those set forth above.