1.0 INTRODUCTION

It is the policy of the Santa Clara Valley Transportation Authority (VTA) to ensure that the temporarily idle funds of the agency are prudently invested to preserve capital and provide necessary liquidity, while maximizing earnings and conforming to state and local statutes governing the investment of public funds.

This policy conforms to the California Government Code (Code) as well as to customary standards of prudent investment management. Investments may only be made as authorized by the Code, section 53600 et seq., sections 16429.1 through 16429.4 and this policy. Should the provisions of the Code become more restrictive than those contained herein, such provisions shall be considered immediately incorporated in this policy. Changes to the Code that are less restrictive than this Policy may be adopted by the Board of Directors (Board).

Proceeds from bond underwritings shall be governed according to the applicable bond indentures and this policy. If there are conflicting requirements, bond indentures shall take precedence.

2.0 SCOPE

This policy sets forth the guidelines for the investment of all funds and investment activities under the direction of VTA, except for: proceeds related to defeased lease transactions; deferred compensation (401(a), 457, etc.), retiree health savings accounts; VTA/Amalgamated Transit Union (ATU) Pension Funds; ATU Spousal Medical, Dental, and Vision Plan Funds; and funds held in the VTA Other Post Employment Benefit (OPEB) Trust. Investment activities related to the excluded funds are governed pursuant to transaction documents/indentures, plan documents or other board adopted investment policies.

3.0 PRUDENCE

The standard of prudence to be used by investment officials shall be the "prudent person" standard, which 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 overall 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. OBJECTIVES

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

4.1 Safety. Safety of principal is the foremost objective of the investment program. VTA's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.

4.2 Liquidity. VTA's investment portfolio shall remain sufficiently liquid to enable VTA to meet its cash flow requirements.

4.3 Return On Investment. VTA's investment portfolio shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

5. DELEGATION OF AUTHORITY

The management responsibility for the investment program is hereby delegated to the General Manager who shall monitor and review all investments for consistency with this investment policy. The General Manager may delegate responsibility for day-to-day management of the portfolio. No person may engage in an investment transaction except as provided under the limits of this policy. The General Manager may also delegate the investment decision-making and execution authority to an investment advisor. The advisor shall follow the policy, which has been approved by the Board of Directors and such other written instructions as are provided.

6. ETHICS AND CONFLICT OF INTEREST

Officers 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 officers involved in the investment process shall disclose to the General Manager any material financial interests in financial institutions that conduct business with VTA, and they shall further disclose any personal financial/investment positions that could be related to the performance of the VTA's portfolio and shall file annually a Statement of Economic Interest with the Office of the Clerk of the Board of Santa Clara County.

7. INTERNAL CONTROLS

The General Manager or his designee shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentations by third parties or imprudent actions by employees or officers of VTA. The internal controls shall be reviewed with the Auditor General and the independent external auditor. The Auditor General shall perform a review of the internal controls at least on a biennial basis.

8. SELECTION OF INVESTMENT MANAGERS, FINANCIAL INSTITUTIONS AND BROKER/DEALERS

VTA shall contract with investment manager(s). The investment manager(s) shall exercise its best efforts and discretion in negotiating the best security transaction executions available at the time, without regard to any broker designations or preferences for the exclusive benefit of the VTA.

9. PERMITTED INVESTMENT INSTRUMENTS

9.1 U.S. Treasury Obligations: United States Treasury bills, notes, bonds or certificates of indebtedness, or those obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest.

9.2 Obligations of Federal Agencies and U.S. Government Sponsored Enterprises: Obligations issued by Banks for Cooperatives, Federal Land Banks, Federal Intermediate Credit Banks, Federal Farm Credit Banks, Federal Home Loan Banks, the Federal Home Loan Bank Board, Government National Mortgage Association, , the Tennessee Valley Authority, or in obligations, participation's, or other instruments of, or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in guaranteed portions of Small Business Administration notes; or in obligations, participation's, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise, or such agencies or enterprises which may be created.

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

9.4 State of California's Local Agency Investment Fund (LAIF): In accordance with Section 16429.1 through 16429.4 of the California Government Code, VTA may invest up to the maximum amount permitted by law in LAIF. The LAIF portfolio, including its average maturity, credit quality and Investment Policy shall be reviewed annually.

9.5 State of California's Local Agency Obligations: bills, notes bonds, warrants or other evidences of indebtedness of any local agency of the State, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the state or local agency or by a department, board, agency or authority of the State or Local agency. Such obligations must be rated A-1/P-1, or equivalent or better short-term; or A/A or better long term by a national rating service.

9.6 Santa Clara County Investment Pool: VTA may invest funds in the Santa Clara County Investment Pool. The Pool portfolio, including its average maturity, credit quality and Investment Policy, shall be reviewed annually.

9.7 Bonds issued by VTA: Bonds issued by VTA, except for Build America Bonds, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by VTA or by a department, board, agency, or authority of the local agency. However, such bonds may only be purchased in conjunction with a financing or refinancing transaction.

9.8 Bankers' Acceptances: Bills of exchange or time drafts drawn on and accepted by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short term paper of which is rated in the highest letter and numerical rating (A-1/P-1) by Moody's Investors Services and by Standard & Poor's Corporation. Purchases of Bankers' Acceptances may not exceed 180 days maturity.

9. 9 Commercial Paper: Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating (A-1/P-1) as provided by Moody's Investors Service, Inc. and Standard & Poor's Corporation; provided that the issuing corporation is organized and operating within the United States, and has total assets in excess of $500 million. Additionally, if the issuer has long-term debt, it must be at least "A" rated, without regard to modifiers. Purchases of eligible commercial paper may not exceed 270 days maturity.

9.10 Repurchase and Reverse Repurchase Agreements: Investments in repurchase agreements and reverse repurchase agreements may be utilized only as short-term investments.

9.10.1 Repurchase agreements may be utilized only when **all** of the following conditions are met:

9.10.1.2 The term of repurchase agreements shall be for 1 year or less.

9. 10.1.3 VTA shall have properly executed a Public Securities Association (PSA) Master Repurchase Agreement with each firm with which it enters into Repurchase Agreements.

9. 10.1.4 Repurchase agreements shall only be made with counter parties that are primary dealers of the Federal Reserve Bank of New York rated "A" or better by two nationally recognized rating services.

9. 10.1.5 The market value of securities that underlay a Repurchase Agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be reviewed weekly unless market conditions warrant daily valuation. Each time there is a substitution of collateral, the market value must be calculated and VTA must be notified of the substitution.

9. 10.1.6 Collateral shall be limited to obligations of the U.S. Government and its agencies and U.S. Government sponsored enterprises.

9. 10.1.7 Collateral shall be delivered to a third party custodian in all cases, and VTA shall obtain a perfected first security interest in all collateral.

9. 10.2 Investments in reverse repurchase agreements may be utilized only to cover temporary cash flow shortages and when **all** of the following conditions are met:

9. 102.1 The security to be sold on reverse repurchase agreement has been owned and fully paid for VTA for a minimum of 30 days prior to the sale; and

9. 10.2.2 The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security.

9. 11 <u>Medium-term Corporate Notes</u>: Medium-term corporate notes of a maximum of five years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Notes

eligible for investment shall be rated in a category "A" or its equivalent or better by a nationally recognized rating service.

9. 12 Insured Savings/Money Market Accounts: Federal Deposit Insurance Corporation (FDIC)-insured savings accounts or Securities and Exchange (SEC)-registered money funds.

9.13 Negotiable certificates of deposit or deposit notes issued by a nationally- or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank. Such obligations must have long-term ratings of "A" or its equivalent or better by a nationally recognized rating service.

9.13.1 Certificates of Deposit Placement Service: The selected depository institution may submit the funds to a private sector entity that assist in the placement of certificates of deposit with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States, for the VTA's account. The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

9. 13.2 The maximum allowable maturity of a certificate of deposit is 5 years. Deposit notes and bank notes shall be included with negotiable certificates of deposit in calculating allowable maximum percentages.

9.14 Mortgage and Asset-Backed Obligations: Any mortgage pass-through security collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable-backed bond of a maximum of five years maturity. Such obligations must be rated in the category of Aa/AA or better by a national rating service and the issuer of such obligations must be rated A/A or better by a national rating service.

9.15 Mutual Funds and Money Market Mutual Funds: Shares of beneficial interest issued by diversified management companies, as defined in Section 23701(m) of the Revenue and Taxation Code, investing in the securities and obligations authorized by Section 9, herein and Sections (a) through (l) of the Code. To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by at least two of the three largest nationally recognized rating services or (2) have an investment advisor registered with the Securities and Exchange Commission with at least five years' experience investing in securities and obligations authorized by Government Code Section 53601 and with assets under management in excess of

$500,000,000. The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that these companies may charge and VTA may not use any fund that assesses fees for deposits or withdrawals.

9.16 Investment Agreements: VTA may invest, or direct its bond trustee on its behalf to invest, any trustee held bond funds in Investment Agreements meeting the terms of this section. The Investment Agreement must be (1) approved by VTA's Chief Financial Officer and (2) be (a) with, or guaranteed by, a financial institution that is rated at least Aa/AA by two national rating agencies on an uncollateralized basis or (b) with a financial institution that has an investment grade rating from two national rating agencies and that pledges U.S. Treasury and/or Agency collateral in an amounts sufficient to maintain Aa/AA ratings from at least two national rating agencies. Uncollateralized Investment Agreements must incorporate downgrade provisions that require the financial institution, if it falls below Aa/AA ratings, either to post U.S. Treasury and/or Agency collateral at levels sufficient to maintain Aa/AA ratings from at least two national rating agencies or to permit VTA or the trustee to withdraw funds under the Investment Agreement without penalty. Investment Agreements shall also include "Forward Delivery Agreements" in which a financial institution with an investment grade rating agrees to sell to VTA or bond trustee U.S. Treasury or Agency Obligations in amounts and at times that satisfy bond indenture requirements.

9. 17 Qualified Structured Investment: Qualified Structured Investment means any investment with a swap counterpart, with a minimum rating in the "Aa/ AA" category by at least two national rating agencies, the purpose of which is to provide VTA with a cash flow that meets VTA's repayment obligations under a structured transaction, such as a leveraged lease, a Japanese operating lease or a service contract. Examples of a Qualified Structured Investment include a (1) "prepaid swap" (also known a fixed swap or a zero-coupon swap) in which VTA swaps a cash deposit for a future cash flow in specified amounts on specific dates or (2) an "asset swap" in which VTA purchases securities that qualify as Permitted Investment Instruments and swaps the cash flow associated with those securities cash flow for a cash flow that meets its defeasance schedule. Qualified Structured Investments shall incorporate downgrade provisions that permit VTA to require the counter party, if it falls below the Aa/AA rating category, (1) to post U.S. Treasury and/or Agency collateral at levels sufficient to maintain Aa/ AA ratings from at least two national rating agencies, (2) to assign the Qualified Structured Investment to a counter party that meets the minimum rating criterion and/or (3) to return the invested funds to VTA or its custodian without penalty.

9.17.1 Credit criteria listed in this section refer to the credit of the security or the issuing organization at the time the security is purchased.

10. SEGREGATED INVESTMENTS

Investments in instruments permitted in Government Code 53601 may be made where cash flow or other factors warrant segregation of funds from the VTA commingled pool. Examples of funds that may warrant such segregation are Workers Compensation reserve funds, Public Liability Property Damage reserve funds, Investment Agreements, and Qualified Structured Investments. The investment of segregated funds such as Retiree Health Care funds and VTA/ATU Pension Funds shall be governed by their own Investment Policies.

11. INELIGIBLE INVESTMENTS

Any security type or structure not specifically approved by this policy is hereby specifically prohibited. Security types which are prohibited include,

(a) Inverse floaters, range notes, dual index notes, leveraged or deleveraged floating-rate notes, or interest-only strips that are derived from a pool of mortgages.

(b) Any security that could result in zero interest accrual if held to maturity.

(c) Any security with an unusually high degree of interest rate sensitivity or credit risk.

(d) VTA's Build America Bonds, specifically the 2010 Series A Bonds designated as "Build America Bonds" under Section 54AA(d) of the Revenue and Taxation Code and as "qualified Build America Bonds (Direct Subsidy)" under Section 54AA(g) of the Revenue and Taxation Code.

12. RATING DOWNGRADES

VTA may from time to time be invested in a security whose rating is downgraded. In the event of a downgrade below the minimum credit rating criteria permitted by this investment policy, the designated investment manager shall immediately report the downgrade to the Investment Services Department and include a recommendation to either hold or sell the security. The General Manager or his designee shall report to the Board, at their next regularly scheduled meeting, both the downgrade and the action that has been taken.

13. DIVERSIFICATION

Investments shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, specific issue, or specific class of securities. The diversification limits are summarized in Appendix A of this policy.

14. SALES PRIOR TO MATURITY

In the effort to maximize portfolio performance, VTA may, from time to time, sell securities that it owns in order to better reposition its portfolio assets in accordance with updated cash flow schedules or better market opportunities.

15. MAXIMUM MATURITY

To the extent necessary, VTA shall match investments with anticipated cash flow requirements.

The Board has granted express authority as part of the investment program to allow long-term securities, i.e. securities with a final maturity greater than five years; not to exceed 40% of the portfolio. Investment maturities greater than eleven years require approval of the Chief Financial Officer.

Notwithstanding the foregoing, VTA may invest in Permitted Investment Instruments with maturity of greater than eleven years in connection with Investment Agreements for debt offerings and in connection with structured financing, such as leveraged leases, operating leases or service contracts, as needed to pre-fund VTA's obligations there under.

Investments with embedded "put" features shall be measured to the put date, while instruments with a "call" feature shall be measured to the final maturity. The maturity of asset backed securities shall be considered the estimated maturity date of the tranche.

Portfolio maturities shall be staggered in such a way that avoids undue concentration of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity.

16. REPORTING REQUIREMENTS

The General Manager or his designee shall, monthly, render an investment report to the Administration and Finance Committee. The monthly report shall include the current market value, including the source of 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 and a statement denoting ability of VTA to meet expenditure requirements for the next six months (or provide an explanation as to why sufficient money may not be available).

The designated investment manager shall, quarterly, render an 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.

17. SAFEKEEPING AND CUSTODY

All securities owned by VTA shall be kept in safekeeping with “perfected interest" in the name of VTA by a third-party bank trust department, acting as agent for VTA under the terms of a custody agreement executed between the bank and VTA.

An exemption shall be granted to mutual fund investments registered under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-I et seq.), the Local Agency Investment Fund or other Local Government Investment Pools.

Securities not otherwise settled by fed wire or through the Depository Trust Company (DTC), if any, shall be received and delivered using standard delivery versus payment procedures.

18. PERFORMANCE STANDARDS

The investment portfolios shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles commensurate with the investment risk constraints and cash flow needs of VTA. VTA shall establish performance benchmark indices for specific funds for performance evaluation purposes, which shall include indices for short term and intermediate funds.

Short Term Funds

The short-term funds index shall be the “iMoneynet Money Market Index” and shall be used to evaluate the performance of the investments when liquidity and assurance of return of principal is essential. Examples of such investments are funds earmarked to underwrite operating deficits and local share of capital projects during the next twelve months.

Mid Term Funds

The mid-term funds index shall be the “Merrill Lynch 1 to 3-Year Treasury Index” and shall be used to evaluate the performance of the investments when liquidity and assurance of return of principal is essential. Examples of such investments are funds earmarked to underwrite local share of capital projects beyond the twelve month period.

Intermediate (Long Term) Funds

The long-term funds index shall be the Barclay’s Capital U.S. Government Intermediate Index. This index shall be used to evaluate the performance of investments, which are not required during the next twelve months. Examples are funds that are earmarked for the settlement of self-insured claims (workers compensation and general liability).

19. INVESTMENT POLICY REVIEW AND AMENDMENTS

The Chief Financial Officer (CFO) shall review the Investment Policy annually to ensure its consistency with the respect to the overall objectives of safety, liquidity and yield, and its relevance to current law and financial trends, and shall recommend amendments, if any, to the Board, which the Board shall consider at a public meeting.

The General Manager and the CFO shall administer the Investment Policy. The CFO shall have the day-to-day responsibility and authority for implementing the Investment Policy.

See "Table of Notes for Appendix A" on the next page for footnotes related to this appendix.

Investment Type	Max Maturity [A]	Maximum Specified % of Portfolio [B]	Minimum Quality
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations – CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	"A" Rating
U.S. Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40% [C]	A_1 / P_1
Commercial Paper	270 days	25% [D]	*"A-1" if the issuer has issued long-term debt it must be "A" without regard to modifiers* [E]
Negotiable Certificates of Deposit	5 years	30% [F]	"A" Rating
Repurchase Agreements	1 year	None	None
Reverse Purchase Agreements and Securities Lending Agreements	92 days [G]	20%	None [H]
Medium Term Notes [H]	5 years	30%	"A" Rating
Mutual Funds and Money Market Mutual Funds	N/A	20% [I]	Multiple [J, K]
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	"AA" Rating [L]
Bank/Time Deposits	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple [M]
Local Agency Investment Funds (LAIF)	N/A	None	None

Table of Notes for Appendix A to Investment of Non-Trust Held Funds Policy

A. *Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.*

B. *Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.*

C. *No more than 30 percent of the agency's money may be in bankers' acceptances of any one commercial bank.*

D. *No more than 10 percent of the agency's money may be invested in any one issuer's commercial paper.*

E. *Issuing corporation must be organized and operating within the U.S. and have assets in excess of $500 million.*

F. *No more than 30 percent of the agency's total funds may be invested in CDs authorized under Sections 53601.8, 53635.8, and 53601(i).*

G. *Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.*

H. *"Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maxi-mum remaining maturity of five years or less, issued by corporations organized and operating within the U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S."*

I. *No more than 10 percent invested in any one mutual fund.*

J. *A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years experience investing in instruments authorized by Sections 53601 and 53635.*

K. *A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years experience investing in money market instruments with assets under management in excess of $500 million.*

L. *Issuer must have an "A" rating or better for the issuer's debt as provided by a nationally recognized rating agency.*

M. *A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).*