

Summary of Policy

It is the policy of the Los Angeles County Metropolitan Transportation Authority to ensure that the temporarily idle funds are prudently invested to preserve capital and provide necessary liquidity, while maximizing earnings.

The Investment Policy provides staff and external investment managers with guidelines to enable the LACMTA to maximize its return on investments subject to the primary objectives of safety and liquidity. The Investment Policy sets forth the guidelines for the investment of temporarily idle cash in the 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.

In accordance with Section 53646 of the California Government Code the Board delegates to the Treasurer, for one year, the authority to invest and reinvest funds and sell, exchange, and deposit securities. The Board may renew the delegation each year.

The law requires the Treasurer to report to the Board, annually and at a public meeting, where it can review and approve the investment policy. It also requires the Treasurer to submit a quarterly cash, investment and transaction report to the CEO, Board, and Internal Auditor. The agency has invested in U. S. Treasury Securities, Commercial Paper, Corporate

Notes and Bonds, and other secure investments. Operating funds are maintained in commercial banks where idle balances are invested as permitted by State law in certificates of deposit, money market accounts and other investments.

Restricted cash and investments with fiscal agents are monies held by Trustees for payment of debt service principal and interest expense. Also included are funds set aside for cost overruns on capital projects and self-insurance reserves for worker's compensation and public liability/property damage claims.

In January 2009, the Board adopted the updated Investment Policy. The revisions to the Investment Policy maintain consistency with language contained in the California Government Code and expand the broker-dealer base available to internal staff. The policy was updated in order to:

- clarify the criteria on the sale of securities by external investment managers.
- revise the criteria on the use of non primary dealers for the internally managed portfolio.
- correct reference to applicable section of the California Government Code.

Historical Perspective

Both predecessor agencies had Board-approved investment policies with investment programs' administration delegated to staff in accordance with state regulations. Although the previous practices were in accordance with existing regulations, the Government Finance Officers Association recommended that all

public agencies document their investment policies.

Before the Board adopted the policy, monies were invested in money market funds and low-risk fixed-income securities on an ad hoc basis.

In October 1993, the Board approved a consolidated Investment Policy, which established a formal set of parameters to assist the agency in the systematic and prudent investment of funds.

In August 1995, the Board of Directors adopted a revised investment policy. The revised policy incorporates the internal controls required for responsible cash management. The revised investment policy took effect after Orange County filed for bankruptcy in late 1994, after risky investments led to a \$1.64 billion dollar loss.

In February 1996, the investment policy was revised to clarify language and concepts and the implementation of various sections of the policy.

Beginning in 1997, Section 53607 of the Government Code requires that the Board delegate investment authority to the Treasurer on an annual basis. The investment policy was updated to reflect the code requirement in December 1997 and approved by the Board to ensure compliance.

January 1999, the majority of the revisions are for clarification and re-numbering for ease of reading. Certain categories of investments are modified to allow up to 15% of the portfolio in the category, up from 10%, increasing the investment manager's flexibility to increase yield without exposing the portfolio to undue risk.

In January 2000, the investment policy was revised to clarify language in compliance with the Government Code. Similarly, in 2001, the policy was updated to provide Treasury more flexibility in performing investment duties while still maintaining compliance with current Code.

In January 2002 and in 2003, the key changes to the Investment Policy provided the agency with greater flexibility in business relations with broker dealers and conform to changes in the Code. The changes also incorporated policy and procedures to be consistent with internal controls and debt policy requirements.

Changes to the Investment Policy in 2004 included incorporating language as recommended by the Associations of Public Treasurers of the United States and Canada, revisions to text to add more clarity, and reference Code Sections for Local Agency Investment Fund

Revisions made to the 2005 Investment Policy are to conform to the Code and remove ambiguity by clarifying the language. County Counsel has reviewed and concurred with the revised changes to the policy. As a result of the updated agency nomenclature guidelines, references using "MTA" were updated throughout the document.

In January 2006, the Board approved revisions to the Investment Policy that are primarily editorial to clarify its scope and incorporate language consistent with the finance standards and practices.

In January 2007, the Board approved revisions to the Investment Policy that are primarily editorial to correct grammar. See

the summary of the changes to the current Investment Policy in Attachment II.

In January 2008, the Board adopted the updated Investment Policy. The policy was updated in order to:

- incorporate recommendations as noted in the model investment policy of the Association of Public Treasurers of the United States and Canada. Changes of this nature included section 4.0 previously Delegation of Authority is now Delegation of Authority and Policy Adoption, section 5.0 previously Permitted Investments is now Permitted Investments and Maximum Maturities, section 7.0 previously Custody and Safekeeping is now Custody of Safekeeping of Securities and LACMTA Funds. Section 8.0 Collateralization was added in the policy. Reports and Communication, previously section 8 of the policy was moved to section 9.
- properly exclude the various funds not covered by this investment policy. Excluded from this policy are guidelines for the investment of proceeds related to:
 - Debt financings and defeased lease transactions
 - Trust and Agency Funds (Deferred Compensation, 401k, Benefit Assessment District, and Workers Compensation and General Liability trust funds)
 - Pension and other post employment benefit trust Funds
- incorporate the new staff title changes. Previously the Executive Officer, Finance and Treasurer, is now Chief

Financial Services Officer and Treasurer.

- clarify and maintain consistency with language contained in California Government Code

Last Board Action

January 22, 2009 – Investment Policy

The Board approved on consent calendar:

- A. Adopting the updated Investment Policy.
- B. Financial Institutions Resolution authorizing financial institutions to honor signatures of LACMTA Officials; and
- C. Delegating to the Treasurer or his/her designees, the authority to invest funds for a one year period, pursuant to California Government Code (the Code) Section 53607.

Attachments

- I. LACMTA Investment Policy

See Related

[Annual Budget](#)

[Debt](#)

[Financial Stability](#)

[Interest Rate Swap](#)

California Government Code § 53607

California Government Code § 53646

Los Angeles County Metropolitan Transportation Authority

INVESTMENT POLICY

Approved on January 28, 2009.

INVESTMENT POLICY

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1.0 Policy

It is the policy of the Los Angeles County Metropolitan Transportation Authority (LACMTA) 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 will be considered as 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).

2.0 Scope

- 2.1 This policy sets forth the 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.
- 2.2 Internal and external portfolio managers may be governed by Portfolio Guidelines that may on an individual basis 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 investment activities shall be:
- A. Safety: Safety of principal is the foremost objective of the investment program. The investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The LACMTA 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 investment portfolio will remain sufficiently liquid to meet all operating requirements that might be reasonably anticipated.
 - C. Yield: The LACMTA 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 policy to hold investments to maturity or until market value equals or exceeds (historical) cost. However a security may be sold prior to its maturity and a capital gain or loss recorded if liquidity needs arise, or in order to improve the quality, or rate of return of the portfolio in response to market conditions and/or LACMTA risk preferences.

Internal and external investment managers shall report such losses to the Treasurer and Chief Financial Services 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 LACMTA, and shall take into account the benefits of diversification in order to protect the 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 LACMTA. In accordance with the California Government Code (CGC) Section 53607, the Board hereby delegates the authority to invest or reinvest the 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 its 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 Ethics Office.

5.0 Permitted Investments

- 5.1 All 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 anticipated cash flow requirements.
- B. No investment instrument shall be purchased which has a stated 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 maturity¹, 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 the 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 funds are deposited or invested. The LACMTA's Financial Advisor (FA) will conduct competitive processes to recommend providers of financial services including commercial banking, investment management, investment measurement and custody services.

- 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 main depository institutions will be selected on a periodic and timely basis.

¹California 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.

- 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 funds with disadvantaged business enterprises, provided that those institutions have met the 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 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 LACMTA 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. Internal investment manager 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. Should market conditions limit access to inventory, the Treasurer may approve executing transactions through non-Primary Dealers who meet all of the criteria listed below:
 - a. The broker dealer must qualify under Securities Exchange Commission rule 15C3-1 (Uniform Net Capital Rule);
 - b. Must be licensed by the state as a broker/dealer as defined in Section 25004 of the Corporations code or a member of a federally registered securities exchange (i.e. NASD, SEC, MISRB);
 - c. Have been in operation for more than five years; and
 - d. Have a minimum annual trading volume of \$100 billion in money market instruments or \$500 billion in U.S. Treasuries and Agencies.
 - 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, 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, LACMTA Procedures, and applicable State and Federal laws.

- 6.4 Depositories and external investment managers 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 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 from loss;
 - D. Agrees to notify the LACMTA 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.

- 6.5 All broker-dealers who do business with the LACMTA'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.

Failure to submit a Receipt of Investment Policy shall preclude the LACMTA 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 LACMTA Funds

- 7.1 Securities and collateral for repurchase agreements shall be purchased and maintained for the benefit of the LACMTA in the Trust Department or safekeeping department of a bank as established by a written third party safekeeping agreement between the LACMTA 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 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 LACMTA'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 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, the Executive Officer, Finance and the 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 LACMTA 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 employees or agents. Such internal controls shall be approved by the Executive Officer, Finance and Treasurer 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 LACMTA 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 Assistant Treasurer, the Controller, and if not resolved promptly, to the Executive Officer, Finance and Treasurer.
- 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 cash flow model. The cash flow model shall be updated monthly based upon the actual and projected cash flow.

Annually, the Treasurer shall notify the external investment managers of the 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 LACMTA. The 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 reasons why it is in the best interests of the LACMTA to replace or retain the investment manager.

Portfolio

Investment Benchmarks

Intermediate Duration Portfolios

Merrill Lynch 1-3 year Government
& Corporate Index

Short Duration Portfolios

Three month Treasury Bill

Los Angeles County Metropolitan Transportation Authority
Section 5.1A
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
1.	Bonds Issued by the Authority.	100%	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.
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%	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.
3.	Registered state warrants or treasury notes or bonds of the State of California.	25%	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. 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%	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. 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.
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%	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 15% of the portfolio may be invested in any one Federal Agency or government-sponsored issue. Minimum rating of A or its equivalent or better by a nationally recognized rating source.
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.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
7.	<p>Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by a nationally recognized rating source. 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 a nationally recognized rating source.</p>	25%	<p>Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of an issuing corporation.</p> <p>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.</p>
8.	<p>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.</p>	30%	<p>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. Minimum rating for the issuer of A or its equivalent or better by a nationally recognized rating source.</p>
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 LACMTA'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 California Government Code Section 53601, (j)</p> <p>Term of repurchase agreement cannot exceed 90 days. Repurchase agreements shall be executed through Primary Broker-Dealers. Reverse repurchase agreements are prohibited. Collateral must have a minimum credit rating permitted by this policy for the investment category.</p>

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
10.	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.	30%	<p>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. 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>
11.	Shares of beneficial interest issued by diversified management companies investing in the securities and obligations as authorized, by California Government 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.
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.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
13.	Asset-backed securities	15% combined with any mortgage-backed securities	<p>Limited to senior class securities with stated 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.</p>
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, stated maturity no more than 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

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION
AUTHORITY

CERTIFICATION OF UNDERSTANDING

The Los Angeles County Metropolitan Transportation Authority (LACMTA) 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 LACMTA's Investment Policy as well as applicable Federal and State laws.*
2. *You meet the requirements as outlined in Investment Policy.*
3. *You agree to make every reasonable effort to protect the assets from loss.*
4. *You agree to notify the LACMTA in writing of any potential conflicts of interest.*
5. *You agree to notify the LACMTA in writing of any changes in personnel with decision-making authority over funds within 24 hours of such event.*

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

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:

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

LACMTA use only:
Approved: _____ Disapproved: _____ Date: _____
Signature: _____
LACMTA Treasurer

APPENDIX B

LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY

BROKER-DEALER RECEIPT OF INVESTMENT POLICY

We are in receipt of the Los Angeles County Metropolitan Transportation Authority's (LACMTA) Investment Policy.

We have read the policy and understand the provisions and guidelines of the policy. All salespersons covering LACMTA'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 LACMTA.

Signed _____
Name Name

Title Title

Firm Name

Date Date

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

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

LACMTA use only:
Approved: _____ Disapproved: _____ Date: _____
Signature: _____
LACMTA Treasurer

APPENDIX C

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION
AUTHORITY

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? _____

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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 LACMTA'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 LACMTA 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 censured, 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 LACMTA representatives:

Agent: _____ License or registration: _____

APPENDIX D

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

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 establish 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.