DEPARTMENT OF WATER AND POWER
CITY OF LOS ANGELES

TRUST FUNDS INVESTMENT POLICY

FINANCIAL SERVICES ORGANIZATION
DECEMBER 13, 2022

Table of Contents

TRUST FUNDS INVESTMENT POLICY

I. INTRODUCTION

The City Charter grants the Board of Water and Power Commissioners ("Board") control over the investment of all financial assets of the Department of Water and Power ("Department"). Proposition "I", approved on November 5, 1996, permits the Department the flexibility to invest its funds in accordance with the California Government Code ("Code"), Section 53600 through 53686.

A majority of the Department's financial assets are in the Power and Water Revenue Funds. These assets have been part of the City of Los Angeles' investment pool program since 1983. However, certain financial assets of the Department held in special-purpose trust or escrow funds ("Trust Funds") with an independent trustee are not included in the City's investment pool program.

II. PROGRAM SCOPE

The Department's Trust Funds Investment Policy ("Investment Policy") applies to all financial assets of the Department other than those held in the Power and Water Revenue Funds. Financial assets held in the Power and Water Revenue Funds are managed by the City Treasurer within the guidelines established by the investment policy of the City of Los Angeles.

This Investment Policy applies to the Trust Funds listed below.

- Electric Plant Revenue Bond Reduction Escrow Fund

  This trust fund, commonly referred to as the Debt Reduction Trust Fund ("DRTF"), was established through Board Resolution No. 97-116 approved in November 1996 to serve as depository for funds accumulated for debt restructuring. Debt reduction was necessary to improve the Department's financial position in response to changes in the power industry's competitive structure.

- Palo Verde Nuclear Decommissioning Trust Funds I and II

  In March 1988, a decommissioning trust account was established through Board Resolution No. 88-193 with the City Treasurer as custodian of funds. In October 1990, the Department converted this account into two external decommissioning trust funds ("Trust Fund I" and "Trust Fund II') and hired a trustee as custodian due to the Nuclear Regulatory Commission ("NRC") requirement that decommissioning funds be held in a trust.

  Trust Fund I was established to meet the NRC's funding guidelines, whereas Trust Fund II was established to meet the funding difference between the NRC and the Arizona Nuclear Power Project Participation Agreement's funding requirements. In addition to the guidelines established by this Investment Policy, both trust funds must adhere to the criteria and standards developed by the Palo Verde Nuclear Generating Station's Termination Funding Committee.

- Natural Gas Trust Fund

  This trust fund was established through Board Resolution 004-021 approved in July 2003, and amended in October 2003, to serve as a depository for funds provided for the purpose of posting margin or collateral, and to pay all fees and expenses incurred in connection with natural gas transactions entered into by the Department.

- Water Expense Stabilization Fund

  This trust fund was established in accordance with the Water System Master Bond Resolution No. 4591, approved on February 6, 2001, to be used for any lawful purpose in connection with the Water System including operation and maintenance, debt service, costs of debt issuance, and/or capital improvements.

- Treatment Storage and Disposal Facility (TSDF) Trust Fund

  This trust fund was established through Board Resolution 009-037 approved in August 2008, and amended in April 2010, to provide financial assurance for closure of the Main Street TSDF.

- California Independent System Operator (CAISO) Markets Trust Fund

  This trust fund was established in accordance with Board Resolution 021-138, approved in February 2021, to facilitate timely and efficient settling of CAISO energy market transaction invoices.

Additionally, this Investment Policy shall apply to special purpose trust or escrow funds established by the Board in the future unless otherwise exempted.

III. STATEMENT OF POLICY

The Investment Policy establishes investment objectives and constraints to manage the investment portfolio and enhance the income from and cash flows of the Trust Funds. Each Trust Fund has a unique purpose, maturity horizon, cash flow pattern, and investment requirements. The general policy, as it relates to investing the Trust Funds, is to preserve the principal value, maintain the liquidity, and maximize income of the Trust Funds. This Investment Policy will be adhered to through consistent, safe, and prudent investment practices, which incorporate recognized portfolio management techniques.

The purpose of this Investment Policy is to establish cash management and investment policy and guidelines for the Department's Chief Financial Officer ("CFO"), who is ultimately responsible for the stewardship of the Trust Funds. Each transaction and the entire portfolio must comply with the California Government Code Section 53600 through Section 53686 and this Investment Policy. All Trust Funds investment activities will be judged by the standards of the Investment Policy and ranking of investment objectives. Any activity that violates its spirit and intent will be deemed to be contrary to the Investment Policy.

IV. INVESTMENT OBJECTIVES

All financial assets should be invested prudently to earn a reasonable return prior to specific application of funds. Investments should be made with precision and care considering the probable safety of the capital as well as probable income to be derived. The Department will administer an investment program that will ensure the accomplishment of three specific objectives. These objectives are ranked below in order of importance.

1. **Safety**

   The Department's first objective is to preserve the Trust Funds' value by establishing a system of controls that is adequate to protect against fraud or mismanagement and by instituting prudent practices to manage portfolio risk. Examples of prudent practices to manage portfolio risk include establishing a target average duration or maturity, a minimum rating standard for corporate investments, and appropriate diversification standards to control market risks.

   The CFO's goal is to safeguard the principal of funds invested. However, the CFO may elect to sell a security prior to its maturity and record a capital gain or loss to improve the quality, liquidity, or yield of the portfolio in response to market conditions or change in risk preferences.

2. **Liquidity**

   The Department's second objective is to ensure that investments are consistent with each individual Trust Fund's cash needs, and allow rapid conversion to cash without substantial loss in value. Liquidity may be achieved by matching the investment horizon of financial assets with the cash flow requirements of the Trust Funds and purchasing investments that are readily marketable.

3. **Yield/Return**

   The Department's third objective is to achieve the maximum yield/return without compromising the safety and liquidity of principal. The Trust Funds' performance will be compared to the performance of market indices of similar duration and sector allocation, for benchmarking purposes.

V. DELEGATION OF AUTHORITY

The overall responsibility for managing the investment program is delegated to the Auditor, the CFO, by definition of the duties and responsibilities of the position. The CFO directs the Trust Funds' investment activities through the Department's Assistant CFO and Treasurer or his/her designee.

No person may engage in an investment transaction except as provided under the terms of this Investment Policy and the procedures established by the Assistant CFO and Treasurer or his/her designee. Only persons authorized by the Board can invest the monies of the Trust Funds.

The Assistant CFO and Treasurer or his/her designee shall establish written procedures for the operation of the investment program including all investment transactions consistent with this Investment Policy. These written procedures, as well as all investment strategies, are subject to approval by the Investment Committee.

VI. INVESTMENT COMMITTEE

An Investment Committee ("Committee") has been established pursuant to Board Resolution No. 97-185 approved in March 1997. The Committee currently consists of the City Controller or his/her designee, a Board Member designated by the Board President, the General Manager of the Department or his/her designee, and the Chief Financial Officer.

The Committee shall meet on an as needed basis, but at least annually to approve revisions to the Investment Policy, to determine/discuss general investment strategies, and to monitor investment results.

The Committee meetings may include discussions about topics such as: 1) the overall economic outlook for the Trust Funds, 2) the diversification and maturity structure of the current investment portfolio, 3) potential risks to the Trust Funds, 4) current status of all authorized brokers and dealers, 5) the yield/return achieved on the Trust Funds, and 6) future investment strategy.

The Committee shall establish its own rules of procedures, and shall perform such other duties as may be assigned to it by this Investment Policy or upon motion by the Board.

Decisions and recommendations made by the Committee shall be based on achieving a consensus among members of the Committee. In the absence of a consensus, the item(s) may be submitted to the Board for consideration at the discretion of the Chair of the Committee.

VII. STANDARD OF CARE

Investment personnel shall use the "Prudent Investor" standard when investing monies in the Trust Funds. This standard shall be applied in the context of managing all aspects of the Trust Funds.

The California Government Code Section 53600.3 states that

> *"… all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."*

VIII. INTERNAL CONTROL

The Assistant CFO and Treasurer or his/her designee shall establish a system of internal controls to provide reasonable assurance that the Trust Funds' investment objectives are met and to ensure that the Trust Funds' assets are protected from fraud, loss, theft, and misuse. The Assistant CFO and Treasurer or his/her designee shall also be responsible for ensuring that all investment transactions comply with the Investment Policy.

IX. INVESTMENT OF FUNDS

A. AUTHORIZED INVESTMENTS

Investment of the Department's Trust Funds is governed by the Code Sections 53600 through 53686.

Authorized investments shall also include investments into the Local Agency Investment Fund ("LAIF") in accordance with Code Section 16429.1, or the Los Angeles County Pool Fund in accordance with Code Section 53684. Below are the investment instruments authorized for the Trust Funds. In the event of a discrepancy between this Investment Policy and the Code, the more restrictive parameters shall take precedence.

Compliance with the percentage limitations established in this Investment Policy will be evaluated on a combined basis across all funds invested under this Investment Policy. Percentage limitations on the purchase of securities apply at the time of purchase. Credit ratings, where shown, specify the minimum credit rating category required at purchase without regard to +/- or 1,2,3 modifiers, if any. For split rated securities, the security's or issuer's highest applicable rating issued by a nationally recognized statistical rating organization ("NRSRO") will be used for determining the security's compliance with this Investment Policy.

1. **U. S. GOVERNMENT SECURITIES** such as U.S. Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable except for investments in the Palo Verde Nuclear Decommissioning Trust Funds, which may be extended to 30 years.

2. **FEDERAL AGENCY AND UNITED STATES GOVERNMENT SPONSORED ENTERPRISE OBLIGATIONS** including participations or other instruments guaranteed as to principal and interest by federal agencies, such as the Government National Mortgage Association ("GNMA"), the Tennessee Valley Authority ("TVA"), and the Small

Business Administration ("SBA"); or U.S. government-sponsored enterprises, such as the Federal Farm Credit Bank ("FFCB"), the Federal Home Loan Bank ("FHLB"), the Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Association ("FHLMC"),. There is no percentage limitation of the portfolio that can be invested in this category except that a maximum of 30% of the cost value of the portfolio may be invested in any one Agency issuer name. A five-year maturity limitation is applicable except for investments in the Palo Verde Nuclear Decommissioning Trust Funds, which may be extended to 30 years.

The types of securities offered by Federal Agencies or Government Sponsored Enterprises that may be purchased include, but are not limited to, fixed rate bonds, step rate bonds, variable rate bonds, conversion bonds, and discount notes.

Investments detailed in items no. 3 through 16 (except item nos. 9, 10, 13, and 15) are further restricted to percentage of the cost value of the portfolio in any one issuer name or placed through a deposit placement service to a maximum of 10%. The total value invested in any one issuer shall not exceed 5% of the issuer's net worth. Again, a five-year maximum maturity limitation is applicable unless further restricted by this investment policy.

3. SUPRANATIONALS United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments shall be rated "AA" or better, or the equivalent, by a NRSRO. Purchases of supranationals may not exceed 30% of the cost value of the portfolio. A maximum of 10% of the portfolio may be invested in any one issuer name.

4. BANKERS ACCEPTANCES also known as bills of exchange or time drafts drawn on and accepted by commercial banks of "prime" quality of the highest ranking or of the highest letter and number rating (i.e., A-1, P-1, F-1, etc.) as provided for by at least two NRSROs. Purchases of bankers acceptances may not exceed 180 days to maturity or 40% of the cost value of the portfolio. A maximum of 10% of the portfolio may be invested in any one issuer name. For Yankee Bankers Acceptances, only those of the highest credit rating (i.e., A-1+, P-1, F-1+, etc.) by at least two NRSROs may be purchased.

5. **COMMERCIAL PAPER** of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by at least two NRSROs. To be eligible for purchase, the entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b) below:

i. The entity must meet the following criteria:
   1. Is organized and operating in the United States as a general corporation.
   2. Has total assets in excess of $500,000,000.
   3. Has debt other than commercial paper, if any, that is rated "A" or higher, or the equivalent, by a NRSRO.

ii. The entity must meet the following criteria:
   1. Is organized within the United States as a special purpose corporation, trust, or limited liability company.
   2. Has program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
   3. Has commercial paper that is rated "A-1" or higher, or the equivalent, by at least two NRSROs.

Purchases of eligible commercial paper may not exceed 270 days to maturity. Purchases of commercial paper may not exceed 40% of the cost value of the portfolio. A maximum of 10% of the portfolio may be invested in any one issuer name.

In addition to the above requirements, the following criteria are applicable for purchases of asset-backed commercial paper:

- Program size of at least $5 billion.
- Minimum of at least two broker/dealers supporting the deal.
- Seasoned deal – more than 1 year outstanding in the marketplace.

- Sponsor bank short-term rating of the highest letter and number as provided for by at least two NRSROs.
- For fully supported programs, there must be one or more liquidity providers, each rated "A-1" or higher, or the equivalent, by at least two NRSROs, whose aggregate commitment to ensure payment equals at least the total principal outstanding and accrued interest at any time.
- For partially supported programs, at least 95% of the securities in the issuer's portfolio must be investment grade, program credit ratings must be affirmed by the NRSROs prior to inclusion of any non-securities assets (mortgages, receivables, etc.,) in the portfolio, and program-wide credit support must be provided by either cash collateral or a third party that has a short-term rating of at least "A-1" or higher, or the equivalent, by at least two NRSROs.

A list of commercial paper issuers that meet the Department's criteria has been established. The list is dynamic and issuers may be added or removed periodically.

6. NEGOTIABLE CERTIFICATES OF DEPOSIT issued by nationally or state-chartered banks, state or federal savings associations, a state or federal credit union or a federally-licensed or state-licensed branch of foreign bank (Yankee CDs) of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by at least two NRSROs. Purchases of negotiable certificates of deposit may not exceed 30% of the cost value of the portfolio. A maximum of 10% of the portfolio may be invested in any one issuer name. A maturity limitation of 397 days is applicable.

7. PLACEMENT SERVICE DEPOSITS placed through a deposit placement service that meet the requirements of Code Section 53601.8. The full amount of the principal and interest that may be accrued during the maximum term of any deposit shall be 397 days. Purchases of Placement Service Deposits may not exceed 30 percent of the cost value of the portfolio. A maximum of 10% of the portfolio may be invested through any one private sector entity that assists with the placement of deposits.

8. **REPURCHASE AGREEMENTS** that specify terms and conditions may be transacted with banks and broker dealers. The maturity of the repurchase agreements shall not exceed 92 days. The market value of the securities used as collateral for the repurchase agreements shall be monitored by the trustee bank/custodian and shall not be allowed to fall below 102% of the value of the repurchase agreement. A Public Securities Association ("PSA") Master Repurchase Agreement is required between the Department and the broker dealer or financial institution for all repurchase agreements transacted. A maximum of 10% of the portfolio may be invested in any one issuer name.

9. **REVERSE REPURCHASE AGREEMENTS** that specify terms and conditions may be transacted with broker dealers and financial institutions, but the total of all reverse repurchase agreements and securities lending agreements on investments owned by the Department cannot exceed 20% of the cost value of the portfolio on the date on which any of these agreements is entered into. The security to be sold on reverse purchase agreements must have been owned at least 30 days prior the sale. The Department may enter into reverse repurchase agreements only to fund short-term liquidity needs. The term of reverse repurchase agreements may not exceed 92 days.

10. **CALIFORNIA LOCAL AGENCY INVESTMENT FUND** ("LAIF") is a State of California managed investment pool, which may be used up to the maximum permitted by California State law.

11. **MORTGAGE-BACKED AND ASSET-BACKED OBLIGATIONS** rated in a rating category of "AA" or its equivalent or better by a NRSRO. Purchases of these securities may not exceed 20% of the cost value of the portfolio and are limited to a maturity of no longer than 5 years. A maximum of 10% of the portfolio may be invested in any one issuer name.

12. **MEDIUM-TERM CORPORATE NOTES** 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. with a maximum remaining maturity of five years may be purchased. Securities eligible for investment shall be rated in a rating category of "A" or its equivalent or better by a NRSRO. Purchases of medium-

term notes may not exceed 30% of the cost value of the portfolio. A maximum of 10% of the portfolio may be invested in any one issuer name.

13. MONEY MARKET FUNDS may be purchased as allowed under State of California Government Code. Purchases of eligible money market funds may not exceed 20% of the cost value of the portfolio.

14. STATE OF CALIFORNIA OBLIGATIONS such as warrants, treasury notes, or bonds, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the State or by a department, board, agency, or authority of the State with a maximum remaining maturity of five years may be purchased. Securities eligible for investment shall be rated in a rating category of "A" or its equivalent or better by a NRSRO at the time of purchase. There is no percentage limitation of the portfolio that can be invested in this category except that a maximum of 10% of the cost value of the portfolio may be invested in any one issuer of the State, department, board, agency, or authority of the State.

15. CALIFORNIA LOCAL AGENCY OBLIGATIONS such as notes, warrants, or bonds, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency with a maximum remaining maturity of five years may be purchased. Securities eligible for investment shall be rated in a rating category of "A" or its equivalent or better by a NRSRO at the time of purchase. Authorized investments in this category include securities issued by the Department's Water System and Power System and Southern California Public Power Authority. There is no percentage limitation of the portfolio that can be invested in this category. Investments in securities issued by the Department's Water System and Power System and Southern California Public Power Authority, combined are restricted to a maximum of 20% of the cost value of the portfolio. For all other California local agency obligations, a maximum of 10% of the cost value of the portfolio may be invested in any one issuer.

16. STATE (OTHER THAN CALIFORNIA) OBLIGATIONS such as notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California, with a maximum remaining maturity of five years may be purchased. Securities eligible for investment shall be rated in a rating category of "A" or its equivalent or better by a NRSRO at the time of purchase. There is no percentage limitation of the portfolio that can be invested in this category except that a maximum of 10% of the cost value of the portfolio may be invested in obligations issued by any one state.

The following table summarizes investment parameters, by instrument, that have been established for the Department's Trust Funds.

	Instrument	Maximum Maturity	Maximum Concentration	
			By Category	By Issuer
1	U.S. Government Securities	5 years; 30 years for Decommissioning Trust Fund	100%	100%
2	Federal Agency and U.S. Government Sponsored Enterprise Obligations	5 years; 30 years for Decommissioning Trust Fund	100%	30%
3	Supranationals	5 years	30%	10%
4	Bankers Acceptances	180 days	40%	10%
5	Commercial Paper	270 days	40%	10%
6	Negotiable Certificates of Deposit	397 days	30%	10%
7	Placement Service Deposits	397 days	30%	10%
8	Repurchase Agreements	92 days	100%	10%
9	Reverse Repurchase Agreements	92 days	20%	N/A
10	California Local Agency Investment Fund	N/A	100%	100%
11	Mortgage-Backed and Asset-Backed Obligations	5 years	20%	10%
12	Medium Term Corporate Notes	5 years	30%	10%
13	Money Market Funds	N/A	20%	20%
14	State of California Obligations	5 years	100%	10%
15	CA Local Agency Obligations	5 years	100%	10%*
16	State (Other than CA) Obligations	5 years	100%	10%

**For California local agency obligations a maximum of 10% may be invested in any one issuer, except for obligations of LADWP and Southern California Public Power Authority, in which a combined maximum of 20% may be invested.*

B. MAXIMUM MATURITIES

Unless specified in the Code, the maximum maturity for permissible investments is five years. However, investments may be purchased with a remaining maturity of greater than five years provided the legislative body grants express authority to make the investment either specifically or as part of an investment program approved by the legislative body at least three months prior to purchase. The Board passed Board Resolution No. 000-108 on December 7, 1999, increasing the maximum maturity for U.S. Government Securities and Federal Agency and U.S. Government Sponsored Enterprise Obligations from five to 30 years for the Palo Verde Nuclear Decommissioning Trust Funds I and II.

An investment's term or remaining maturity shall be measured from the settlement date to final maturity. Unless otherwise allowed under the Code, a security purchased shall not have a forward settlement date exceeding 45 days from the time of investment.

For investment instruments with a tender or put option for the holder to tender such investment for purchase at the par amount thereof plus accrued and unpaid interest, the maturity of such investment for purposes of this Investment Policy shall be deemed to be the period between the date of purchase and the first time thereafter such tender or put option can be exercised.

C. PROHIBITED INVESTMENTS

No investment shall be authorized that has the possibility of returning a zero or negative yield if held to maturity, except as allowed for U.S. Government Securities pursuant to Section 53601.6 of the Code, in the event of, and for the duration of, a period of negative market interest rates.

Prohibited investments include, but are not limited to, inverse floaters, range notes, or interest-only strips derived from a pool of mortgages.

D. EQUITY-LINKED NOTES

An equity-linked note is a debt obligation of a corporate issuer that provides the investor a return tied to the performance of a particular stock index or basket of stocks. Unlike typical bond offerings, it pays little or no semiannual coupon. At maturity, it repays all or a portion of the principal plus a return that is based on the performance of the chosen index. This return is referred to as the supplemental redemption amount. The supplemental redemption amount may be zero, but will not be less than zero.

In October 1999, the Board passed Resolution No. 000-080 authorizing the purchase of Equity Linked Notes in the Palo Verde Nuclear Decommissioning Trust Funds and the Postretirement Healthcare Benefit Trust Fund. At a minimum, a guaranteed return of one percent shall be required for an equity-linked note. The equity participation rate shall be adjusted to achieve this minimum requirement.

Equity-linked notes shall be categorized as medium-term corporate notes as defined under the California Government Code. They shall be limited by the same constraints applicable to corporate notes under the Code and Section IX.A (Authorized Investments) of this Investment Policy, except that purchases of equity-linked notes shall not exceed 5 percent of the cost value of the portfolio. Investment in equity-linked notes is further restricted to the percentage of the cost value of the portfolio in any one issuer name to a maximum of 5 percent. The total value invested in any one issuer shall not exceed 5 percent of the issuer's net worth. A five-year maximum maturity limitation is applicable.

E. INTEREST EARNINGS

All moneys earned and collected from investments authorized in this Investment Policy shall remain in the individual Trust Funds or accounts.

F. PORTFOLIO MANAGEMENT ACTIVITY

The investment program shall seek to augment returns consistent with the intent of this Investment Policy, identified risk limitations, and prudent investment principles. These objectives may be achieved through the use of any strategies listed below.

Active Portfolio Management. The portfolio yield may be enhanced with limited and calculated increases in risk through active fund and cash flow management taking advantage of current economic and interest rate trends.

Portfolio Maturity Management. Investment personnel shall evaluate current and expected interest rate yields and necessary cash flow requirements when structuring the maturity composition of the portfolio. It is recognized that, in normal market conditions, longer maturities produce higher yields. However, securities with longer maturities also experience greater price fluctuations when interest rate levels change.

Security Swaps. A security swap involves switching one security for another and is entered into for a variety of reasons. Swaps are executed to increase portfolio yield, to lengthen or shorten maturities or duration, to take a profit, or to improve investment quality.

The Department may take advantage of security swap opportunities to improve the overall portfolio yield. A swap that improves the portfolio yield may be selected even if the transaction results in an accounting loss. Documentation of swaps will be included in the Department's permanent investment file documents. Under no circumstances shall a swap be used solely for purposes of speculation.

Competitive Bidding. Competitive bidding is required for all investment transactions except for new issue securities, securities bought directly from the issuer, and liquidation to reduce future losses on securities of companies with financial difficulties that are or are expected to experience rapidly declining market value. When competitive bidding is required, at least three bidders must be contacted for the purchase and sale of any security. When competitive bidding is not required, the price of the trade should be compared to an independent financial source to verify current market pricing, and such pricing must be documented for auditing purposes.

G. COLLATERAL REQUIREMENTS

Security collateral is required for investments in repurchase agreements. Repurchase agreements executed with approved brokers or dealers must be collaterized with either U.S. Government Securities, or Federal Agency and U.S. Government Sponsored Enterprise obligations.

In order to reduce market risk, the market value of the collateral (principal and accrued interest) shall be at least 102 percent of the repurchase agreement. Since the market value of the underlying securities is subject to daily market fluctuations, investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day. Use of mortgage-backed securities for collateral is not permitted except for securities lending transactions.

H. LIMIT MARKET VALUE EROSION

The longer the maturity of securities, the greater the market price volatility. Therefore, it is the general policy of the Department to limit the potential effects from erosion in market values by adhering to the guidelines below.

- All immediate and anticipated liquidity requirements will be addressed before purchasing any investments.
- Maturity dates for investments will coincide with significant cash flow requirements where possible.
- All long-term securities will be purchased with the intent to hold investments to maturity under then prevailing economic conditions. However, economic market conditions may change, making it in the Department's best interest to sell or trade a security prior to maturity.

I. DIVERSIFICATION

Assets in the Trust Funds shall be diversified to minimize the risk of loss resulting from an over-concentration of assets in a specific maturity, industry, issuer, or sector.

J. SAFEKEEPING

All securities purchased shall be delivered against payment and held in safekeeping pursuant to a safekeeping agreement with a third party custodian/trustee. The custodian/trustee shall be required to provide safekeeping receipts and ongoing reports to verify securities taken into possession. The only exceptions to the foregoing shall be collateralized and/or insured time deposits, LAIF, and money market mutual funds since these securities are not deliverable. Evidence of each of these investments shall be maintained by the custodian/trustee.

Securities held in custody for the Department shall be independently audited on an annual basis to verify investment holdings. Any exceptions to this safekeeping policy must be approved by the CFO in writing and included in reports to the Board and the Investment Committee.

K. RISKS

The Department recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a means to control risks in addition to establishing prudent selection of securities by investment personnel.

No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. In the event of default by a specific issuer, the CFO will take immediate action and evaluate the security for possible liquidation.

X. AUTHORIZED BROKERS/DEALERS

The Assistant CFO and Treasurer or his/her designee shall maintain a list of broker/dealers authorized to provide investment services to the Department. An authorized broker or dealer must acknowledge in writing to the Assistant CFO and Treasurer or his/her designee that the broker has received and read a copy of this Investment Policy before conducting trades on behalf of the Department. All brokers or dealers will be selected based upon an evaluation of their credentials by the Assistant CFO and Treasurer or his/her designee as outlined in Appendix B. Investment personnel shall conduct trades on behalf of the Department only with authorized investment brokers or dealers.

XI. SECURITIES LENDING PROGRAM

The CFO is authorized to engage contractors to perform securities lending activities or allow custodian banks to subcontract for securities lending services. The securities lending program is governed by a separate policy and procedures/guidelines as shown in Appendix A of this Investment Policy.

XII. PROFESSIONAL SERVICES

The Department may contract for outside professional services, such as a master custodian, securities lending agent, and investment advisor, as necessary for the efficient and prudent management of investments.

At least annually, the Department shall contract for the services of an independent third party or require the Department's external auditor to review the investment operations, including policies, procedures, and controls, and to submit the results of the review to the Committee.

XIII. REPORTING

The Assistant CFO and Treasurer or his/her designee shall submit quarterly investment reports that summarize investment income to the Committee and the Board for information and evaluation.

Pursuant to California Government Code section 53646, the report will list the type of investments, name of issuer, maturity date, par and dollar amount of the investments. For the total investment program, the report will list average maturity, market value, and pricing source of the investments. The report shall also show portfolio yields/returns, portfolio risks (modified duration and weighted average life), benchmark yields/returns, and portfolio allocation by investment instrument, term, and credit ratings. Additionally, the report will include a description of any funds under the management of contracting parties (including securities lending programs), a statement of compliance to the Investment Policy, and a statement of the Trust Funds' ability to meet the expected expenditure requirements for the next six months.

Exceptions to the Investment Policy shall be reported as established in the Exceptions Handling and Reporting section of the attached Investment Guidelines.

XIV. POLICY REVIEW

The Investment Policy shall be adopted through a Board resolution annually. The Investment Policy shall be reviewed at least once a year to ensure its consistency with the overall objectives of safety, liquidity, and yield/return, as well as its relevance to current law and financial and economic trends. Any amendments to the Investment Policy shall be forwarded to the Board for approval.

Any changes or amendments to the Code resulting from legislative action by the State of California shall be deemed incorporated in the Investment Policy and shall supersede any and all previous applicable language. The Investment Policy will be revised to reflect such changes or amendments during its next submittal to the Board for approval.

XV. TRUST FUNDS INVESTMENT GUIDELINES

1. AUTHORIZATIONS AND RECORDS RETENTION

a. All brokers and/or dealers with whom investment personnel deal must be approved by the Assistant CFO and Treasurer or his/her designee prior to any transaction.

b. Investment personnel shall maintain a current listing of all institutions approved as authorized brokers and/or dealers.

c. Subject to Section IX.F of this Investment Policy, investment transactions (buys, sells, and exchanges) shall be made by means of a bid process when practicable to do so. Records of all offers/bids shall be maintained by investment personnel and recorded on an investment worksheet. When rapid moves in interest rates are occurring, transactions may be executed using trade information provided by the Bloomberg system.

d. All payments for services rendered are paid from the Department's Power or Water Revenue Fund, as applicable.

2. OVERSIGHT

a. All investment transactions will be reviewed monthly by the Assistant CFO and Treasurer or his/her designee for control purposes.

b. Independent verification shall be performed by the Department's Accounting Section in connection with their reconciliation of monthly bank statements and fund balances.

3. EXCEPTIONS HANDLING AND REPORTING

Exceptions to the limits established in the Investment Policy shall be initially reported by investment personnel to the Investment Manager using the Exceptions Handling and Reporting Template within five business days of discovery. The Investment Manager shall review exception reports and determine the need to escalate the reporting of exceptions to internal audit or management. Exceptions shall be reported to the Board as part of the Quarterly Investment Report and to the Investment Committee in the annual Investment Committee Meeting. Exceptions to be reported shall include, but not be limited to, the following types:

- Authorized Investments - Any exceptions to the limitations to the type, percentage, maturity, rating, issuer, or other criteria specified in the Investment Policy
- Competitive Bidding – Any exception to the competitive bidding process specified in the Investment Policy.
- Collateral Requirements – Any exceptions to the collateral requirements specified in the Investment Policy.
- Safekeeping – Any exceptions to the safekeeping policy specified in the Investment Policy.
- Issuer Default – A default by an issuer of securities held in the portfolios
- Securities Lending - Any exceptions to the Securities Lending Policy, including, but not limited to the following:
    - Collateralization
    - Mark to Market
    - Matched vs. Mismatched Loans
    - Duration of Loans
    - Securities Available for Loan
    - Securities Lending Income
    - Indemnification of Losses
    - Authorized Investments of Cash Collateral
- Broker/Dealer – Any transactions with an unauthorized broker/dealer.

XVI. TRUST FUNDS INVESTMENT PROCEDURES

Investment personnel shall comply with the following Investment Procedures:

1. PRELIMINARY ANALYSIS AND PREPARATION

a. Review periodically the portfolio and discuss investment objectives, constraints, strategy, and cash flow needs.

b. Study and review, on a continuing basis, the Wall Street Journal, Bloomberg's analyses of securities performance, current financial literature, and consult with investment experts concerning interest rate projections and events that may result in possible market changes.

2. INVESTMENT ACTIVITIES

a. Receive information regarding contributions from Financial Planning and Scenario Development Section. Also, review portfolio printout for maturing investments.

b. Consider factors listed in preliminary analysis and preparation to determine the sector, amount, and term of the investment.

c. Contact at least three dealers/brokers to obtain investment rates, to the extent practicable.

d. Review description of investment offers/bids and calculate yield in Bloomberg.

e. Record offers/bids received on the investment worksheet for documentation.

f. Select dealer/broker with best offer or bid.

g. Record selected offer or bid on the investment worksheet.

h. Finalize purchase or sale with the broker/dealer and confirm wire instructions.

i. Print yield analysis and security description in Bloomberg.

j. Receive trade confirmation ticket from broker/dealer through Bloomberg and review for accuracy.

k. Attach Bloomberg printouts, confirmation and other supporting documents to investment worksheet.

l. Fax or e-mail the investment worksheet to Trustee or phone to Trustee details of each purchase or sale transaction such as:

   1. Broker's Name
   2. Security Description
   3. Amounts (Par, Cost, Accrued Interest, if any)
   4. Fund and Account Numbers
   5. Maturity Date
   6. Settlement Date
   7. Rates
   8. Wire Instructions

m. Update investment in portfolio in Bloomberg and print portfolio trade ticket.

n. Input to portfolio management software, all required information such as:

   1. Investment Worksheet Reference Number
   2. Account Number
   3. Type of Security
   4. Cusip
   5. Issuer
   6. Date of Purchase
   7. Issue Date
   8. Maturity Date

9. Purchase Price
10. Yield to Maturity/Call
11. Coupon Rate
12. Income Due on Interest Payment Dates
13. Inter-fund Transfers of Income
14. Accrued Interest Purchased
15. Par Amount
16. Cost
17. Premium [Discount]
18. Credit Rating
19. Last Date Interest was Paid Immediately Prior to Purchase
20. Broker Information.

o. Print purchase/sale tickets.

p. Compare electronic trade confirmation received from broker with trade tickets from Bloomberg and portfolio management software to ensure correctness.

q. Receive confirmation of investment transaction by mail from brokers, typically one week after transaction.

r. Compare transaction confirmation notices from investment firm with the purchase/sale tickets to ensure correctness.

s. File confirmation notices and investment worksheet in completed investment file.

t. Forward copy of investment worksheets, purchase/sales tickets and a copy of the investment portfolio monthly to the Assistant CFO and Treasurer or his/her designee.

u. Confirm weekly transactions/activities and account balance with Trustee's records.

v. Receive monthly bank statement from Trustee, typically one to three business days after month-end.

w. Reconcile investment portfolio with monthly bank statement.

x. Prepare monthly investment report that lists each investment (security) by fund and account number at par amount, cost, current market value and yield. The report will also include interest received, premium or discount, interest accrued as of the specific reporting month and portfolio performance.

y. Submit monthly report for review and approval by the Assistant CFO and Treasurer or his/her designee.

z. Send copy of monthly report to the Department's Accounting Section.

aa. Prepare quarterly investment report that lists portfolio and benchmark yields, weighted cost of debt, if applicable, rate of return, investment cost, market value, modified and benchmark duration, weighted average life, and portfolio structure and composition by market sector, maturity and asset credit rating.

bb. Prepare cover letter to Board of Water and Power Commissioners summarizing the investment results for the reporting period.

cc. Submit quarterly report and cover letter for review and approval by the Assistant CFO and Treasurer or his/her designee.

dd. Submit quarterly report and cover letter to the Board of Water and Power Commissioners.

DEPARTMENT OF WATER AND POWER
CITY OF LOS ANGELES

APPENDIX A – SECURITIES LENDING PROGRAM POLICY

FINANCIAL SERVICES ORGANIZATION
DECEMBER 13, 2022

Table of Contents

SECURITIES LENDING PROGRAM POLICY

ANNEX A – CASH COLLATERAL INVESTMENT POLICY

ANNEX B – SECURITIES LENDING MONITORING POLICIES AND GUIDELINES

SECURITIES LENDING PROGRAM POLICY

PURPOSE

The Chief Financial Officer ("CFO") shall render annually to the Board of Water & Power Commissioners (the "Board"), a statement of Securities Lending Program Policy in addition to the Trust Funds Investment Policy. The Securities Lending Program Policy establishes objectives and safeguards to assure the Board that the Securities Lending Program of the Department of Water & Power ("Department") is conducted in a safe and sound manner by the lender institution or securities lending agent.

OBJECTIVE

The objective of securities lending is to receive a safe return from the lending program and enhance earnings through additional securities lending income. This objective is achieved through the safe loaning of securities, and the prudent reinvestment of cash collateral in relatively liquid and marketable securities.

GOAL STATEMENT

Maximize revenues derived from the Department's trust and escrow funds at a manageable risk level.

SCOPE

The Department's securities lending program covers all "lendable" securities included in the Electric Plant Revenue Bond Reduction Escrow Fund, the Palo Verde Nuclear Decommissioning Trust Funds, the Natural Gas Trust Fund, the Water Expense Stabilization Fund, and the Treatment Storage and Disposal Facility Trust Fund ("Trust Funds").

AUTHORITY

The Securities Lending Program was established with the approval of Resolution File No. 000-080 by the Board on October 19, 1999. The Department executed a contractual file for U.S. Bank to serve as securities lending agent on July 20, 2000.

Management's responsibility for the securities lending program is delegated to the Auditor ("CFO") by definition of the responsibilities of the position. The CFO administers and manages the Department's securities lending program through the Assistant CFO and Treasurer or his/her designee.

This policy is subject to the approval of the members of the Trust Funds Investment Committee ("Committee") mentioned in the Department's Trust Funds Investment Policy ("Investment Policy"). The Assistant CFO and Treasurer or his/her designee shall establish written procedures for the operation of the securities lending program.

CAPACITY OF THE SECURITIES LENDING AGENT

As an agent, the lender institution offers securities on behalf of the Department. As a "fully disclosed" agent, it must disclose all the names of the borrowers to the Department. Likewise, it must also disclose to its borrowers that the Department owns the securities being loaned to them. In addition, the lending agent must disclose its compensation for handling the lending transactions of the Department.

As a fiduciary, the lender institution is expected to exercise due diligence, prudence and great care in offering securities on behalf of and for the benefit of the Department.

CREDIT

The securities lending program agent shall have in place a credit evaluation policy and procedures on file with the Department. The lending agent shall also provide an updated credit evaluation report for each security borrower to the Department on an annual basis or upon request by the CFO.

The lending agent's credit policy and procedures shall include, but not be limited to, 1) periodic credit analysis and review, 2) establishment of individual credit limits, and 3) credit and concentration limits of the lending agent to the same borrower or related interest.

Only security dealers designated as primary dealers by the New York Federal Reserve Bank shall be authorized to participate in this program.

An established management or supervisory committee of the lender institution shall formally approve, in advance, transactions with any borrower.

COLLATERALIZATION

Securities should not be lent unless collateral has been received or will be received simultaneously with the loan. The lending agent should always ensure that there is a clear title to the collateral received.

Cash as Collateral

The investment policy outlined in Annex A will serve as the guideline for selecting the investments for any cash collateral received. Cash collateral will not be invested in any assets, liabilities or obligations of the lending agent, its affiliates or its holding company unless the Department specifically authorizes such strategy in writing.

Securities as Collateral

Securities collateral on lent securities shall be strictly limited to US Treasury securities and non-callable U.S. Government Agency (Federally Related and Sponsored) securities. The initial collateral on securities loans should be 102% of the market value of the lent securities including any accrued interest.

MARK TO MARKET

All securities loaned and all securities standing as collateral must be marked to market daily. The procedures outlined below should ensure that any calls for additional margin are made on a timely basis.

If after loan initiation date, the aggregate market value increases by .49% or decreases by .50% from the original 102%, no action needs to be taken by the lending agent, borrower or the Department to adjust the value of the collateral.

This variance allows the collateral with market value as low as 101.50% to be held without the need to make a margin call to the broker, and as much as 102.49% without the need for the Department or lending agent to return securities upon request by the borrower.

In summary, any aggregate amount that rounds to 102% shall be considered as meeting the 102% collateralization requirement. Margin calls and any adjustment shall be made no later than the end of the first business day following the excess variance.

Investment personnel will conduct an independent audit of mark-to-market values of the collateral to ensure compliance with the parameters set by this policy.

MATCHED VS. MISMATCHED LOANS

Matched maturities between securities loans and investments shall be at least 75% of the securities lending portfolio. Matched maturities include those investments associated with a term loan and overnight investments associated with open loans. The agent should be able to provide next day liquidity for securities on open loans.

DURATION OF LOANS

Section 53601(j)(3)(c) of the California Government Code ("Code") sets the following restriction on the duration of term loans: "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 or securities lending agreement and the final maturity date of the same security." Open loans, where either party can terminate a lending contract on demand, do not have duration limits.

SECURITIES AVAILABLE FOR LOAN

Pursuant to Section 53601(j) of the Code, the total amount of securities available for loan and reverse repurchase agreements shall not exceed 20 percent of the base value of the portfolio. For compliance with the securities lending policy, the base value of the portfolio is the original cost of securities in the portfolio not including any amounts received as collateral for securities lending or reverse repurchase agreements.

Also, per Section 53601(j) of the Code, securities available for loan shall be limited to securities which have been owned by the Department for a minimum of 30 days.

SECURITIES LENDING INCOME

Income from securities lending shall be allocated pro rata to the trust funds and escrow accounts that loaned the securities based on the market value of securities lent in a given month.

INDEMNIFICATION

The securities lending agent shall indemnify and hold the Department harmless from and against all losses actually incurred as a result of the agent's operational failure (which includes failure to comply with the Department's Securities Lending Program policy) or agent's failure to carry out adequate credit analysis.

The agent shall indemnify the Department if the borrower fails to return the securities and the collateral is inadequate to replace the securities lent or fails to pay the Department for income distributions by the securities' issuers while the securities were on loan.

The agent shall not indemnify the Department to the extent that any loss or expenses is caused in whole or in part by the wrongful act or breach of the Agreement by the Department.

The agent shall not indemnify the Department from principal and or interest loss on any reinvestment purchased for the Department's account.

The agent shall agree to adjust the Department's income for any loan showing a negative return at month-end such that the difference between the reinvestment rate and the rebate is flat. The adjustment shall be made from the agent's portion of the earnings split as provided in the contract.

RECORD KEEPING

The securities lending agent shall establish an adequate record keeping system. At minimum, the system shall provide the Department with daily reports showing securities available for lending, securities currently loaned, outstanding loans by borrowers, outstanding loans by account, new loans, returns of loaned securities, and transactions by account. These records will be updated to enable both the Department and lending agent to account for all outstanding loans, and to ensure that policies and concentration limits are being followed.

REPORTING

The CFO shall include a report on the securities lending program activities in the Quarterly Investment Report provided by the Financial Services Organization to the Board of Water & Power Commissioners.

ACCOUNTING & FINANCIAL REPORTING

Permitted investments for collateral received are to be recorded in accordance with the appropriate statement of the Governmental Accounting Standards Board ("GASB") No. 28. This Statement establishes accounting and financial reporting standards for securities lending transactions. In these transactions, the Department transfers its securities to primary dealers for collateral—which may be cash or securities—and simultaneously agrees to return the collateral for the same securities in the future.

The Department shall report securities loaned (the underlying securities) as assets in its balance sheet. Cash received as collateral on securities lending transactions and investments made with that cash will be reported as assets. Securities received as collateral will also be reported as assets if the Department has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions will be reported in the balance sheet.

The cost of securities lending transactions, such as borrower rebates (interest costs) and agent fees, will be reported as expenditures or expenses. These costs will not be netted with interest revenue or income from the investment of cash collateral, any other related investments, or loan premiums or fees.

The following are other disclosure requirements under this Statement:

1. The source of legal or contractual authorization for the use of securities lending transactions.
2. Any significant violations of provisions during the period.
3. Whether the maturities of the investments made with cash collateral generally match the maturities of the securities loans
4. Summary information about the credit risk associated with the transactions at the balance sheet date.
5. General information about the transactions such as:
    a. Types of securities lent
    b. Types of collateral received
    c. Whether the Department has the ability to pledge or sell collateral securities without a borrower default
    d. The amount by which the value of the collateral provided is required to exceed the value of the underlying securities
    e. Any restrictions on the amount of the loans that can be made
    f. Any loss indemnification provided to the Department by the securities lending agent.
6. Carrying amount and market or fair values of underlying securities at the balance sheet date.

OPERATIONS REVIEW

The CFO or his/her designee has the responsibility to monitor the lending agent's performance. The designated person will make the necessary arrangements to receive daily reports in sufficient detail to fully understand what investments the lending agent is making.

The person will be responsible in spot checking ratings and maturities to ensure that the agent is complying with the securities lending policy. In addition, this designee must understand the effect of the gap--the mismatch between loan duration and investment duration-on portfolio risk.

The lending agent will be required to explain any violations of the investment policy in writing.

The lending agent will convey to the Department "what-if" scenarios performed on the cash collateral portfolio to check the effect of a Federal reserve rate hike, or of a steepening of the yield curve, when possible.

INTERNAL AUDIT

The Department's Internal Audit Unit shall periodically conduct an audit of the transactions and reports relating to the securities lending program to ensure that policies as set forth in this securities lending program policy are adhered to and administered properly.

ANNUAL MEETING

There will be a minimum of one annual meeting with the lending agent to discuss the performance, improvements and other aspects related to the securities lending program. The Department's designee should attempt to visit the lending agent's facilities annually.

POLICY REVIEW

The Department's securities lending program policy shall be reviewed in connection with the review of the Trust Fund Investment Policy by the Investment Committee on an as needed basis, but at least annually. The securities lending policy shall be reviewed to ensure its consistency with its objectives. Any amendment to the policy shall be forwarded to the Board for approval.

Any State of California legislative action that further restricts allowable maturities, investment type or percentage allocations will be incorporated into the Cash Collateral Investment Policy in Annex A, and supersede any and all previous applicable language.

ANNEX A

SECURITIES LENDING CASH COLLATERAL INVESTMENT POLICY

OBJECTIVE

The investment strategy is to follow an investment program that ensures, in priority order, the following: safety of cash collateral, liquidity of the securities lending portfolio and return on cash collateral.

AUTHORIZED INVESTMENTS

The following criteria are based on the California Government Code Section 53601 through 53686 and are further restricted by the Securities Lending Cash Collateral Investment Policy, as described herein.

1. U.S. GOVERNMENT SECURITIES

There shall be no restrictions on the percentage of the securities lending portfolio that may be used to purchase United States Treasury Bills, Notes, Bonds, or those instruments for which the full faith and credit of the United States are pledged for the payment of principal and interest.

2. FEDERAL AGENCY AND U.S. GOVERNMENT SPONSORED ENTERPRISE OBLIGATIONS

Commonly referred to as "Agencies", there are no restrictions on the percentage of securities lending portfolio that may be used to purchase obligations issued by the Government National Mortgage Association ("GNMA"), the Federal Farm Credit Bank ("FFCB"), the Federal Home Loan Bank ("FHLB"), the Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Association ("FHLMC"), and the Tennessee Valley Authority ("TVA"); or in guaranteed portions of Small Business Administration notes; or in obligations, participations, or other instruments of, or issued by any other, federal Agency or United

States government-sponsored enterprise, except that a maximum of 30% of the cost basis of the securities lending portfolio is allowed in each Agency issuer name.

3. REPURCHASE AGREEMENTS

Those broker/dealers approved for repurchase agreement transactions shall be limited to broker/dealers for which a securities lending line has been approved by the securities lending agent. Repurchase Agreements may also be executed with any approved bank. The maturity of the repurchase agreements shall not exceed 45 days. There shall be no limitations as to the percentage of securities lending portfolio that may be invested in overnight or open repurchase agreements. At the time of purchase, agreements extending longer than overnight with one particular counterparty shall not exceed 10% of the total cost value of the securities lending portfolio.

The following requirements shall apply to all repurchase agreement transactions:

a. The lending agent on behalf of the Department will use a standard form of repurchase agreement such as the Public Securities Association ("PSA") model repurchase agreement, or another form of agreement that contains comparable provisions, when entering into repurchase agreements.

b. The lending agent shall perfect the security interest of the Department in the collateral underlying the repurchase agreement so, to the maximum extent permitted by law, the Department's interest will be protected if there is a default by the other party to the repurchase agreement.

c. Repurchase agreements entered into by the lending agent on behalf of the Department shall be adequately collateralized, i.e., the amount of collateral required at inception of a repurchase agreement transaction shall depend on the type of security provided as collateral and shall be equal to at least the margin requirements specified in the table in Section 3.e of this Annex for the principal amount of the transaction. In addition, the market value of the securities held as collateral shall be marked to market daily during the entire term of the transaction, and the repurchase agreement shall provide that additional collateral will be required from the broker/dealer or bank if the market value of the securities falls below the principal amount of the transaction plus accrued interest thereon.

d. Any broker/dealer with whom a repurchase agreement is entered into must be a primary dealer in United States Government Securities reporting to the Federal Reserve Bank of New York.

e. Included in the table below are eligible and ineligible collateral securities for repurchase agreements. Margin requirements, minimum credit ratings and maturity restrictions for eligible collateral are also indicated.

Security	Eligibility Yes/No	Margin Requirement	Minimum Credit Rating	Trust Maturity Restriction
US Treasury Bills, Notes, Bonds	Yes	102%	AAA	N/A
US Treasury Strips	Yes	102%	AAA	N/A
FFCB Debentures	Yes	102%	AAA	N/A
FHLB Debentures	Yes	102%	AAA	N/A
FNMA Debentures	Yes	102%	AAA	N/A
FHLMC Debentures	Yes	102%	AAA	N/A
REFCO Debentures	Yes	102%	AAA	N/A
TVA Debentures	Yes	102%	AAA	N/A
Agency Structured Notes	No	N/A	N/A	N/A
Asian Development Bank	Yes	102%	AAA	N/A
African Development Bank	Yes	102%	AAA	N/A
Inter-American Development Bank	Yes	102%	AAA	N/A
International Finance Corp	Yes	102%	AAA	N/A
World Bank	Yes	102%	AAA	N/A
GNMA Single Family Mortgages	Yes	102%	AAA	N/A
GNMA Trust Receipts	No	N/A	N/A	N/A
Agency Trust Receipts	No	N/A	N/A	N/A
Agency Pass Through – Fixed Rate	Yes	102%	AAA	N/A
Agency Pass Through – Floating Rate	Yes	102%	AAA	N/A
Mortgage Backed Strips (IO, PO)	No	N/A	N/A	N/A
Agency CMO/REMIC				
Residuals	No	N/A	N/A	N/A
Inverse IO Floaters	No	N/A	N/A	N/A
Interest Only (IO)	No	N/A	N/A	N/A
Principal Only (PO)	No	N/A	N/A	N/A
Inverse Floaters	No	N/A	N/A	N/A

Z-Tranche bonds	No	N/A	N/A	N/A
Companion Bonds	No	N/A	N/A	N/A
Companion Floaters	No	N/A	N/A	N/A
Sequential Floaters	Yes	102%	AAA	N/A
Sequential Bonds	Yes	102%	AAA	N/A
TAC Bonds	Yes	102%	AAA	N/A
PAC and other Scheduled bonds	Yes	102%	AAA	N/A
Private Label ABS & CMOs				
MBS Pass Throughs	No	N/A	N/A	N/A
CMO Types				
Residuals	No	N/A	N/A	N/A
Inverse IO Floaters	No	N/A	N/A	N/A
Interest Only (IO)	No	N/A	N/A	N/A
Principal Only (PO)	No	N/A	N/A	N/A
Inverse Floaters	No	N/A	N/A	N/A
Z-Tranche bonds	No	N/A	N/A	N/A
Companion Bonds	No	N/A	N/A	N/A
Companion Floaters	No	N/A	N/A	N/A
Sequential Floaters	No	N/A	N/A	N/A
Sequential Bonds	No	N/A	N/A	N/A
TAC Bonds	No	N/A	N/A	N/A
PAC and other Scheduled bonds	No	N/A	N/A	N/A
Corporates				
Credit Card and Auto ABS	Yes	105%	AAA	5 years
Home Equity, Manufactured Housing ABS	No	N/A	N/A	N/A
Investment Grade Corporate Bonds and Medium Term Notes	Yes	105%	A	5 years
Non-investment Grade Corporate Bonds and Medium Term Notes	No	N/A	N/A	N/A
Money Markets				
Commercial Paper	Yes	102%	A1/P1	N/A
Negotiable Certificates of Deposit	Yes	102%	A1/P1	N/A
Bankers Acceptances	Yes	102%	A1/P1	N/A
Common Stock	No	N/A	N/A	N/A
Preferred Stock	No	N/A	N/A	N/A
Cash	Yes	100%*	N/A	N/A

**At inception, if held in repurchase agreement. 102% or 105% depending on securities purchased with cash taken in for repurchase agreement.*

f. Any bond with an underlying issuer in bankruptcy is prohibited as collateral for repurchase agreements.

g. For term repurchase agreements, a maximum of 30% of the aggregate collateral is allowed in each Agency issuer name.

Investments detailed in items 4 through 9 below are further restricted to the percentage of the cost value of the securities lending portfolio in any issuer name to a maximum of 10%. The total value invested in any issuer shall not exceed 5% of the issuer's net worth.

4. BANKERS ACCEPTANCES

Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as bankers acceptances which are eligible for purchase by the Federal Reserve system shall not exceed 180 days maturity and shall not exceed 40% of the securities lending portfolio. To be eligible for purchase, bankers acceptances must be of "prime" quality of the highest ranking or of the highest letter and number rating (i.e., A-1, P-1, F-1, etc.) as provided for by at least two nationally recognized statistical-rating organizations (NRSRO). For Yankee Bankers Acceptances, only those of the highest credit rating (i.e., A-1+, P-1, F-1+, etc.) by at least two NRSROs may be purchased.

5. COMMERCIAL PAPER

Commercial paper must be of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by at least two NRSROs. It must be issued by corporations that are organized and operating within the United States, have assets in excess of $500,000,000 and have an "A" or equivalent or better rating on its long term debentures as provided by a NRSRO. Purchases of eligible commercial paper may not exceed 270 days maturity. Purchases of commercial paper may not exceed 40% of the cost value of the securities lending portfolio at the time of purchase.

6. NEGOTIABLE CERTIFICATES OF DEPOSITS

CDs issued by a nationally or state chartered bank, a state or a federal savings association, a state or federal credit union or a federally licensed or a state licensed branch of a foreign bank (Yankee CD) which has been rated the highest letter and number as provided by at least two NRSROs. At the time of purchase, negotiable certificates of deposit may not exceed 30% of the total cost value of the securities lending portfolio. A maturity limitation of 397 days is applicable.

7. **MEDIUM TERM CORPORATE NOTES**

Only medium term corporate notes with a maximum remaining maturity of 397 days and issued by corporations operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States shall be purchased. Securities eligible for investment shall be rated in a rating category of "A" or its equivalent or better by a NRSRO. At the time of purchase, medium term corporate notes may not exceed 30% of the cost value of the portfolio.

8. **MORTGAGE-BACKED AND ASSET-BACKED OBLIGATIONS**

Mortgage-backed and asset-backed obligations issued by an issuer having an "A" or its equivalent or higher rating for the issuer's debt as provided by a NRSRO and rated in a rating category of "AA" or its equivalent or better by a NRSRO. At the time of purchase, these securities may not exceed 20% of the securities lending portfolio and are limited to a maturity no longer than 397 days.

9. **MONEY MARKET FUNDS**

Those administered for or by the trustee's banks contracted with by the Department may be purchased as allowed under the State of California Government Code.

MATURITY

1. A minimum of 25% of the securities lending portfolio must mature or be redeemable on any business day.

2. The maximum maturity on investments is restricted by Section 53601(j)(3)(D) of the Code which requires that funds "…shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending 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 date of the same security."

3. Notwithstanding No. 2 above, an instrument that is issued or guaranteed by the United States Government, any agency thereof, or by a corporation, which has a variable rate of interest, set off a money market index (i.e., Fed Funds, Bills, LIBOR, CP, Prime), readjusted no less frequently than every 95 days, shall have a final maturity not to exceed 397 days.

MATCHED VS. MISMATCHED LOANS/INVESTMENTS

1. At least 75% of the securities lending portfolio shall have matched maturities between securities lent and securities invested. Matched maturities include those investments associated with a term loan and overnight or open investments associated with open loans.

2. In accordance with Section 53601(j)(3)(C) of the Code, the maximum life of term loans is restricted to 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 or securities lending agreement and the final maturity date of the same security."

PROHIBITED INVESTMENTS

No investment shall be made that has the possibility of returning a zero or negative yield if held to maturity. Prohibited investments include, but are not limited to, inverse floaters, interest only strips derived from a pool of mortgages, range notes and any derivative type investment instrument.

Derivative securities are:

- Securities with underlying leverage risk (e.g., Interest Only/Principal Only Mortgage-backed securities)
- Securities with any structural principal reimbursement risk (e.g., Principal Exchange Rate Linked Securities also known as PERLS)

- Securities with interest rate reset provisions that are:
    a. Based on a formula that magnifies changes in interest rates (e.g., floaters, inverse floaters, leverage floaters)
    b. Tied to more than one index so that a change in the relationship between those indexes may result in the value of the investment instrument falling below par (e.g., dual index floaters).

No investment shall be permitted in securities issued by the lending agent, its affiliates or subsidiaries unless the Department specifically authorizes such in writing.

Any instrument not specifically identified in this policy as an authorized investment must have prior approval by the Chief Financial Officer before purchasing.

ANNEX B

SECURITIES LENDING MONITORING PROCEDURES AND GUIDELINES

Securities Lending is a revenue enhancement program approved by the Board of Water & Power Commissioners on October 19, 1999 and contracted out with U.S. Bank National Association as securities lending agent on July 20, 2000.

Since securities lending is an investment-related activity, the Debt, Investments, and Risk Control Section of the Financial Services Organization is charged with monitoring the securities lending agent's securities lending activities. The following outlines the monitoring procedures and guidelines:

1. Securities are to be loaned out only to primary dealers who passed the credit evaluation analysis by the Bank.

2. Term loans shall not exceed 92 days unless a minimum spread is guaranteed in writing as required by California Government Code Section 53601(i)(3).

3. Matched maturities between securities lent and securities invested shall be at least 75% of the securities lending portfolio.

4. Market value of collateral shall be at least (at a rounded figure of) 102% of the market value of securities loaned out.

5. Minimum of 25% of securities lending portfolio must mature or be redeemable on any business day.

6. The maximum maturity on investments is limited to 92 days unless a minimum earning or spread is guaranteed in writing as required by California Government Code Section 53601(j)(3).

7. Reinvestments shall be in the following instruments and in the following percentages of the total securities lending portfolio (prior day's total of cash and non-cash collateral):

	Max. Percentage Allowed	
	Per Name	Total
Treasuries	100	100
Agencies	30	100
Banker's Acceptances	10	40
Commercial Paper	10	40
Medium Term Notes	10	30
Repurchase Agreement (other than overnight)	10	100
Mortgage-Backed and Asset-Backed	10	20
Money Market Funds	10	20

8. Securities loaned out shall not exceed 20% of the aggregate cost of all securities in the Department's accounts.

9. Securities loaned out must have been owned by the Department at least 30 days prior to the loan date.

10. Securities received as collateral for investments in repurchase agreements must meet the collateral requirements specified in Annex A to the Securities Lending Program Policy.

11. The Debt, Investments & Risk Control Section of the Financial Services Organization shall ensure:

    a. Accuracy of the Department's share of the securities lending earnings as reported by the lending agent at month end. Any discrepancy in excess of $10.00 between earnings reported and earnings remitted shall be determined by the Section and be brought to the attention of the lending agent in a timely manner.

b. Timely remittance of securities lending income to the Department. Income for the month shall be wired in no later than the 10th business day of the following month.

c. The above restrictions are incorporated in the securities lending monitoring checklists (copies attached) to be completed daily or monthly as reports are received via fax from the Department's securities lending agent.

SECURITIES LENDING PROGRAM
DAILY MONITORING CHECKLIST
AS OF ___________________

	YES	NO
1. Are borrowers limited to primary dealers?	_______	_______
2. Are term loans within the 92-day limit or is a written guarantee provided for loans in excess of 92 days?	_______	_______
3. Are market values of collateral's at least 102% (rounded) of the market values of securities loaned out?	_______	_______
4. Are securities loaned out vs. invested at least 75% matched?	_______	_______
5. Is there at least 25% of the collateral portfolio maturing or redeemable tomorrow?	_______	_______
6. Are reset dates on loans and investments within the 95-day limit?	_______	_______
7. Are investments in permitted instruments?	_______	_______
8. Are investments within percentage limit?	_______	_______
9. Are investments within maturity limits?	_______	_______
10. Is the total value of securities loaned out within the 20% of portfolio value limit?	_______	_______
11. Have all securities loaned out been owned at least 30 days prior to loan origination?	_______	_______
12. Does collateral received for investments in repurchase agreements meet requirements?	_______	_______

Comments:

____

____

____

Action Taken:

____

____

____

Reviewed by: ____________________ Date: ___________________________

SECURITIES LENDING INCOME
MONTHLY MONITORING CHECKLIST
AS OF___________________

	YES	NO	OVER/ SHORT
1. Are reported earnings from cash collateral reinvestments correct?	________	________	________
2. Are reported fees from non-cash collateral correct?	________	________	________
3. Is the Department's share of the total earnings equal to the percentage in the contract?	________	________	________
4. Is the Department's share of the earnings received on or before the 10th business day of the following month? Indicate date received	________	________	________

Note: Net discrepancy of over $10.00 must be reported to the Lending Agent.

COMMENTS:

A. Finder fee deducted to Total Earnings _________

B. Variance of Revenue Statement VS Earning Statement:

Cash Loans Earnings _________

Broker Rebate _________

Cash Earnings _________

NET VARIANCE EXCLUDING FINDER FEE _________

C. City share received was based on Revenue Summary report.

ACTION TAKEN BY INVESTMENT OFFICER:

____

Prepared By: Verified By:

___________________ ___________________

Date _______________ Date _______________

SECURITIES LENDING VERIFICATION LIST
AS OF ____________________

	Per Revenue Summary	Per Earnings Statement	Revenues Statement is over (short)
CASH LOANS:			
Reinvestment Earnings	$___________	____________	_____________
Less: Broker Rebate	___________	____________	_____________
Net Cash Loans Earnings	___________	____________	_____________
NON-CASH LOANS:			
Fee Earnings	___________	____________	_____________
ADJUSTMENT: FINDER FEE	___________	____________	_____________
Net Non-Cash Earnings	___________	____________	_____________
TOTAL EARNINGS	$__________	____________	_____________
U.S. BANK FEE	$__________	____________	_____________
DEPARTMENT OF WATER & POWER REVENUE	$ __________	____________	_____________

CASH RECEIVED:

Per Cash Receipt ( )	$
Per Revenue Statement	$_____________
Difference	_____________

DEPARTMENT OF WATER AND POWER
CITY OF LOS ANGELES

APPENDIX B -
GUIDELINES AND PROCEDURES ON BROKER SELECTION

FINANCIAL SERVICES ORGANIZATION
DECEMBER 13, 2022

Table of Contents

GUIDELINES AND PROCEDURES ON INVESTMENT BROKER/DEALER SELECTION

Section X of the Trust Funds Investment Policy ("Investment Policy") requires investment personnel to conduct trades on behalf of the Department only with authorized investment brokers or dealers. Further, all brokers or dealers will be selected based upon the evaluation of their credentials by a committee according to the guidelines that follow.

PURPOSE

The purpose of the broker/dealer selection and review process is to ensure that the brokers/dealers who are currently authorized are qualified, and that their qualifications are constantly reviewed in a formal and timely process.

THE COMMITTEE

A Broker Review and Selection Committee ("Committee") comprised of the Assistant CFO and Treasurer or his/her designee and the Investment Manager reviews the performance of current and potential brokers/dealers.

PERIODIC REVIEW

The Committee shall meet at least once a year or as needed. At each meeting, the Committee shall review the following:

- A list of the investment brokers/dealers that are currently authorized to do business with the Department.

- The audited financial statements of each investment broker/dealer and changes in financial condition that may affect the broker's/dealer's ability to perform.

- State certification and National Association of Securities Dealers ("NASD") registrations.

- Services that are being provided by each investment broker/dealer.

- Percentage or absolute dollar amounts that each broker/dealer has transacted during the period being reviewed.

- Recommendations made by the Committee for adding and deleting investment brokers/dealers from the authorized list.

Each investment broker/dealer shall be analyzed on his or her own merits and capabilities. A broker/dealer will be selected based on his or her commitment to service of the Department's needs with the required expertise and financial qualifications. Based on the review, brokers/dealers may be removed from the authorized list.

ADDING A BROKER/DEALER

Potential brokers/dealers will be sent a copy of the most recent Investment Policy and will be requested to respond to the Broker/Dealer Questionnaire as shown in Exhibit A. The questionnaire addresses the following informational needs:

- The name of the individual or the individuals who will be authorized to transact investments with the Department. This authorization should be endorsed in writing by an officer of the broker/dealer firm.

- References from at least three other entities with investment needs similar to the Department's requirements.

- Current audited financial statements.

- Description of the broker's/dealer's individual history of investment experience, registrations and a disclosure of all past complaints or violations that have been lodged with the NASD within the past five years.

- Written disclosure of the distinctive qualities that the individual or his/her firm possesses which may assist the Department in its investment management process.

- The name of the individual's immediate supervisor and his/her contact information.

If after a review of the completed questionnaire and relevant information, the Committee believes that the individual and the broker/dealer firm can potentially add value to the investment decision making process in the Department, the Assistant CFO and Treasurer or his/her designee will interview the prospective broker/dealer.

During the interview, the Department's investment objectives and strategies, and ways the prospective broker's/dealer's firm can assist in meeting these objectives, will be discussed. The purpose of the interview is to enable the Department to evaluate the qualifications of the prospective broker/dealer and to prepare the prospective broker/dealer to receive and respond to requested services by the Department.

The Debt, Investments, and Risk Control Staff of the Financial Services Organization shall contact each reference to confirm the qualifications represented by the prospective broker/dealer to the Department.

Once a decision has been made to add a prospective broker/dealer, the broker/dealer and his or her supervisor will be informed of the selection in writing. Before any investment can be transacted, the broker/dealer must sign and return a certificate that the broker/dealer has read and agrees to comply with the Investment Policy.

UPDATING BROKER/DEALER FILES

Investment personnel will ensure that the current broker/dealer files are maintained and updated. On an annual basis, the broker/dealer files should be updated by the following information:

- Written letter from the broker/dealer firm naming its authorized representative(s) to transact investments with the Department. An officer of the firm should endorse the letter.

- Signed certification that the broker/dealer has read and agrees to comply with the Investment Policy.

- Current audited financial statements.

ADDITIONAL CRITERIA

In selecting brokers/dealers, the Department should focus on developing relationships with consultative brokers/dealers rather than informational brokers/dealers. The Department should be able to rely on this type of broker/dealer for consultation and analysis. A consultative broker/dealer has as his/her primary objective the delivery of a service that focuses on the Department's investment objectives and strategies including possibly providing advice on the development of future strategies and objectives and providing portfolio reports that will assist in the Department's investment management responsibilities. Further, such broker/dealer should have a complete understanding of the Department's investment policy and should always consider the impact of investment transactions on the entire portfolio and subsequent changes in its risk profile.

Additionally, the Department desires that all available interested brokers / dealers, including Small Business Enterprises ("SBEs") and Disabled Veteran Business Enterprises ("DVBEs"), as defined by the Department's SBE/DVBE Participation Program or any successor program, as well as other enterprises, have an equal opportunity to compete for and participate in business opportunities related to the Investment Policy. Therefore, in line with the policies of the City of Los Angeles, the Department will use reasonable efforts to include SBE and DVBE broker/dealer firms as well as local firms in its authorized list of brokers / dealers. All brokers / dealers and their subcontractors shall comply with the applicable non-discrimination and affirmative action provisions of the laws of the United States of America, the State of California, and the City of Los Angeles. Brokers / dealers and their subcontractors shall not discriminate in their employment practices against any employee or applicant for employment because of such person's race, religion, national origin, ancestry, sex, sexual orientation, age, disability, domestic partner status, marital status, or medical condition. Failure by a broker / dealer to comply with the obligations of this paragraph or to obtain the compliance of its subcontractors with such obligations shall subject said broker /dealer to the imposition of any and all sanctions allowed by law, as well as removal from the authorized list of brokers / dealers.

EXHIBIT A

DEPARTMENT OF WATER AND POWER
CITY OF LOS ANGELES

BROKER/DEALER QUESTIONNAIRE

1. Name of Firm: ______________________________
   Local Address ______________________________
   ____
   National Address: ______________________________
   ____
   ____

   (Please specify if Broker, Dealer or Primary Dealer in US Government Securities)
   ☐ Primary Dealer
   ☐ Dealer
   ☐ Broker

   Name of Holding Company, if applicable
   Address: ______________________________
   ____

2. Name of Authorized Representative(s):
   (Please indicate primary representative)
   Name: ____________________ Phone No. ____________
   Name: ____________________ Phone No. ____________
   Name: ____________________ Phone No. ____________

3. Please list references from at least three other organizations that may have investment needs similar to those of the Department of Water and Power.
   Firm: ______________________________
   Name: ____________________ Phone No. ____________
   Firm: ______________________________
   Name: ____________________ Phone No. ____________
   Firm: ______________________________
   Name: ____________________ Phone No. ____________

4. Please provide a brief description of each authorized representative's individual history of investment experience, registrations, number of years in institutional sales with the firm, and current licenses. (Please attach additional sheets if necessary)

5. Please explain any complaints or violations that have been lodged with the NASD or any other regulatory agency for improper or fraudulent activities related to the sale of securities for the firm and each authorized representative within the past 5 years. (Please attach additional sheets if necessary)

6. Please provide any advantages, specialization, products or services that your firm possesses which may assist the Department of Water and Power in its investment management process. Please identify any written reports or services (e.g., portfolio analysis, risk management, total return analysis, swap analysis) that can be provided to the Department and how often they can be provided. Please provide samples.

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

____
____
____
____
____
____

8. Does your firm have internal policies regarding utilization of subcontractors which are designated as "women owned," "minority owned," "small business enterprises," or "disabled veteran business enterprises?"

____
____
____
____
____
____

9. Immediate Supervisor of the Authorized Representative(s)
Name: ______________________ Phone No. ______________

10. Please send a copy of your most recent audited financial statements and certified documentation of capital adequacy and financial solvency, together with the original signed copy of this questionnaire, to the name and address listed below.

MATTHEW E. CURTIS
LOS ANGELES DEPARTMENT OF WATER AND POWER
111 N. Hope Street, Room 465
Los Angeles, California 90012

Signed: ______________________ Date: ______________________
Name: ______________________ Title: ______________________
______________________ ______________________
______________________ ______________________