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**Investment Policy for the Enhanced Cash Fund**

**January 2024**

# INVESTMENT POLICY FOR THE CALIFORNIA CLASS ENHANCED CASH FUND

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## Introduction

The purpose of this Investment Policy for the California CLASS Enhanced Cash Fund (Enhanced Cash Fund) is to describe the investment objectives, policies and restrictions for the Enhanced Cash Fund, which is one of the funds within the California CLASS Investment Program offered by the California Cooperative Liquid Assets Securities System, doing business as the California CLASS (California CLASS). Reference is made to the Information Statement for the Enhanced Cash Fund (Information Statement) for additional information relating to the Enhanced Cash Fund and the California CLASS. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Information Statement.

As set forth in Section 53601 of the California Government Code, the legislative body of a local agency having moneys in a sinking fund or moneys in its treasury not required for the immediate needs of the local agency may invest any portion of the money that it deems wise or expedient in the investments described in Section 53601. However, the California Government Code limits the amount of surplus money of a local agency that may be invested in such investments. Each Participant is responsible for monitoring the aggregate amount of its investments in any of these types of investments to ensure its own compliance with the California Government Code. Moreover, each Participant is responsible for ensuring compliance with its own internal policies and restrictions on investments. None of the California CLASS, the Administrator, the Investment Advisor, the Custodian, or any other agents of the California CLASS shall be responsible for such monitoring or compliance.

## Enhanced Cash Fund Investment Objectives

The general objective of the Enhanced Cash Fund is to generate additional investment income for the Participants while maintaining safety and liquidity. The Enhanced Cash Fund seeks to outperform the yields generated by the Prime Fund by taking modest interest rate and liquidity risk and maintaining similar credit risk while preserving capital by investing only in securities that comply with the requirements of California law, specifically California Government Code Section 53601. The Enhanced Cash Fund is a slightly longer-term investment option with a floating net asset value that will typically maintain a weighted average maturity between six (6) months to one and a quarter (1.25) years.

**The Enhanced Cash Fund does not seek to maintain a stable Net Asset Value (NAV) and is not suitable for daily liquidity needs.** It will establish a \$10.00 transactional share price and will calculate and publish a fair value NAV daily. The principal value of an Enhanced Cash Fund investment may fluctuate and could be greater or less than \$10.00 per share at time of purchase, prior to redemption, and at the time of redemption. The Enhanced Cash Fund is designed to complement the daily liquidity of the Prime Fund and is suitable for public agency funds that possess a longer time horizon, such as

strategic and core reserves and non-operating dollars that a public agency would not anticipate needing to unexpectedly withdraw. Generally speaking, funds that can be invested for twelve (12) months and longer are most appropriate for the Enhanced Cash Fund.

Utilized in tandem, the Prime and Enhanced Cash Funds offer public agencies the ability to construct the optimal liquidity portfolio on the same California CLASS investment program platform. The Investment Advisor for the Enhanced Cash Fund will seek to maintain a 'AAAf/S1' rating from FitchRatings. The 'AAAf' rating is Fitch's opinion on the overall credit profile within a fixed-income fund/portfolio and indicates the highest underlying credit quality of the investments. The 'S1' volatility rating is Fitch's opinion on the relative sensitivity of a portfolio's total return and/or net asset value to assumed changes in credit spreads and interest rates. The 'S1' volatility rating indicates that the fund possesses a low sensitivity to market risks. This rating is neither a market rating nor a specific recommendation to buy or sell a security. Ratings are subject to change and do not remove credit risk. According to FitchRatings, a fund rated 'AAAf/S1' demonstrates the highest underlying credit quality (or lowest vulnerability to default) and a very low sensitivity to market risk.

The investment objectives of the Enhanced Cash Fund in order of priority are:

**Safety:** The Enhanced Cash Fund is managed to emphasize the preservation of principal and approximate a \$10.00 transactional share price. Changes in interest rates can and will interact with the Enhanced Cash Fund's weighted average maturity and duration characteristics to effectuate an increase or decrease in the NAV. Similar to any fixed income security's price being inversely related to yields, when interest rates increase the NAV can decrease, and when interest rates decrease the NAV can increase.

**Liquidity:** The Enhanced Cash Fund is managed to provide next-day liquidity to its Participants.

**Competitive Returns:** The next-day liquidity Enhanced Cash Fund is managed to generate higher interest income than the daily liquid Prime Fund.

No assurances can be given that the investment objectives of the Enhanced Cash Fund will be achieved. The Enhanced Cash Fund introduces the possibility of reporting a realized or unrealized gain or loss.

### **Enhanced Cash Fund Eligible Investments**

Specifically designed for California local governments, the California CLASS will invest available cash in the Enhanced Cash Fund exclusively in the following investments (Eligible Investments) authorized under the California Government Code Section 53601 and subject to the maturity, diversification, and credit quality requirements specified below. The Board of Trustees (Board) of the California CLASS has established this Investment Policy for the Enhanced Cash Fund in order to mirror California Government Code with respect to the maturity, diversification, and credit quality requirements for the eligible investments. The Board may amend or revise this Investment Policy, from time to time, in accordance

with the JPA Agreement. Upon the Board's approval of any amendment to an Investment Policy, the amended Investment Policy will be posted to the website of California CLASS. This Investment Policy may also be amended to reflect any changes to the California Government Code.

- 1) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

**Maximum Maturity:** 5 Years from the date of trade settlement

**Maximum Portfolio Allocation:** No Limit

**Maximum Per Issuer Allocation:** No Limit

**Minimum Credit Quality:** Not Applicable

- 2) Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

**Maximum Maturity:** 5 Years from the date of trade settlement

**Maximum Portfolio Allocation:** No Limit

**Maximum Per Issuer Allocation:** No Limit

**Minimum Credit Quality:** Not Applicable

- 3) Repurchase agreements in securities authorized in paragraphs (1) or (2), above, provided that the term of the agreement does not exceed one year. "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery. The market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the 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.

**Maximum Maturity:** 1-Year

**Maximum Portfolio Allocation:** No Limit

**Maximum Per Issuer Allocation:** No Limit

**Minimum Credit Quality:** Not Applicable

- 4) Registered state warrants or treasury notes or bonds of this state, 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.

**Maximum Maturity:** 5 Years from the date of trade settlement

**Maximum Portfolio Allocation:** No Limit

**Maximum Per Issuer Allocation:** No Limit

**Minimum Credit Quality:** Rating category of "A" or its equivalent or better by a NRSRO

- 5) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, 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.

**Maximum Maturity:** 5 Years from the date of trade settlement

**Maximum Portfolio Allocation:** No Limit

**Maximum Per Issuer Allocation:** No Limit

**Minimum Credit Quality:** Rating category of "A" or its equivalent or better by a NRSRO

- 6) Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

**Maximum Maturity:** 5 Years from the date of trade settlement

**Maximum Portfolio Allocation:** No Limit

**Maximum Per Issuer Allocation:** No Limit

**Minimum Credit Quality:** Rating category of "A" or its equivalent or better by a NRSRO

- 7) Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Pursuant to Section 53601(g) of the California Government Code, purchases of bankers' acceptances shall not exceed 180 days maturity or 40% of the agency's moneys that may be invested pursuant to this section and no more than 30% of the agency's moneys may be invested in the bankers' acceptances of any one commercial bank pursuant to this section.

**Maximum Maturity:** 180 days

**Maximum Portfolio Allocation:** 40%

**Maximum Per Issuer Allocation:** 30%

**Minimum Credit Quality:** "A-1" or higher, or the equivalent, by a NRSRO

- 8) Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either clause (A) or (B): (A)(1) is organized and operating in the United States as a general corporation, (2) has total assets in excess of five hundred million dollars (\$500,000,000), (3) has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by a NRSRO or (B)(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 a surety bond, (3) has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO. In addition to the Maximum Per Issuer Allocation set forth below, no more than 10% of the Enhanced Cash Fund shall be invested in the commercial paper and the medium-term notes of any single issuer. Pursuant to 53601(h) of the California Government Code, local agencies, other than counties or a city and county, that have less than \$100,000,000 of investment assets under management, may invest no more than 25% of their moneys in eligible commercial paper; local agencies, other than counties or a city and county, that have \$100,000,000 or more of investment assets under management may invest no more than 40% of their moneys in eligible commercial paper; a local agency, other than a county or a city and a county, may invest no more than 10% of its total investment assets in the commercial paper and the medium-term notes of any single issuer; and counties or a city and county may invest in commercial paper pursuant to the concentration limits in Section 53635 of the California Government Code.

**Maximum Maturity:** 270 days

**Maximum Portfolio Allocation:** 40%

**Maximum Per Issuer Allocation:** 10%

**Minimum Credit Quality:** "A-1" or higher, or the equivalent, by a NRSRO

- 9) Negotiable certificates of deposit issued by a nationally or state-chartered bank or by a savings association or a federal association (as defined in Section 5102 of the California Financial Code), a state or federal credit union, or by a federally-licensed or state-licensed branch of a foreign bank, provided that the deposits in any one institution shall not exceed the shareholders' equity of such institution. In addition to the Maximum Per Issuer Allocation set forth below, no more than 10% of the Enhanced Cash Fund shall be invested in the negotiable certificates of deposit and medium-term notes of any single issuer. As required by California Government Code Section

53601(i), purchases of negotiable certificates of deposit shall not exceed 30% of the agency's moneys that may be invested pursuant to this section.

**Maximum Maturity:** 5 Years from the date of trade settlement

**Maximum Portfolio Allocation:** 30%

**Maximum Per Issuer Allocation:** 5%

**Minimum Credit Quality:** "A-1" or higher, or the equivalent, by a NRSRO.

- 10) Medium-term notes, defined as all corporate and depository institution debt securities 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. Pursuant to 53601(k) of the California Government Code, purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30% of the agency's moneys that may be invested pursuant to this section and a local agency, other than a county or a city and a county, may invest no more than 10% of its total investment assets in the commercial paper and the medium-term notes of any single issuer.

**Maximum Maturity:** 5 Years from the date of trade settlement

**Maximum Portfolio Allocation:** 30%

**Maximum Per Issuer Allocation:** 5%

**Minimum Credit Quality:** Rating category of "A" or its equivalent or better by a NRSRO

- 11) A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Pursuant to Section 53601(o) of the California Government Code, purchase of securities authorized by this subdivision shall not exceed 20% of the agency's surplus moneys that may be invested pursuant to this section.

**Maximum Maturity:** 5 Years from the date of trade settlement

**Maximum Portfolio Allocation:** 20%

**Maximum Per Issuer Allocation:** 5%

**Minimum Credit Quality:** Rating category of "AA" or its equivalent or better by a NRSRO

- 12) 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 which are eligible for purchase and sale within the United States. Pursuant to Section 53601(q) of the California

Government Code, investments under this subdivision shall not exceed 30% of the agency's moneys that may be invested pursuant to this section.

**Maximum Maturity:** 5 Years from the date of trade settlement

**Maximum Portfolio Allocation:** 30%

**Maximum Per Issuer Allocation:** 5%

**Minimum Credit Quality:** Rating category of "AA" or its equivalent or better by a NRSRO

- 13) Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. Such eligible companies shall have (1) attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs and (2) retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include commission that the companies may charge. Pursuant to Section 53601(I) of the California Government Code, investments under this subdivision shall not exceed 25% of the agency's moneys that may be invested pursuant to this section.

**Maximum Maturity:** NA

**Maximum Portfolio Allocation:** 20%

**Maximum Per Fund Allocation:** NA

**Minimum Credit Quality:** Highest ranking provided by not less than two NRSROs

- 14) Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in code section 53601 subdivisions (a) to (r), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria: (1) The adviser is registered or exempt from registration with the United States Securities and Exchange Commission. (2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive. (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

**Maximum Maturity:** NA

**Maximum Portfolio Allocation:** 100%



**Maximum Per Fund Allocation:** NA

**Minimum Credit Quality:** Highest ranking provided by at least one NRSROs

### **Ongoing Compliance Considerations**

The credit rating requirements and percentage limitation limits set forth in this Investment Policy shall apply at the time of purchase. In the event that such percentage limitation requirements are breached due to fluctuations in the portfolio balance within the Enhanced Cash Fund, this Investment Policy shall not require the sale of securities to bring the portfolio back into compliance provided that such deviations are expected to be short lived, and that due consideration is given to such concentrations when evaluating future investments. In the event that the credit rating of a security is downgraded to below the requirements of this Investment Policy subsequent to its purchase, the Investment Advisor shall evaluate the circumstances surrounding the ratings downgrade and, at its sole discretion, make a determination to hold or sell the affected securities based upon a review of the issuers financial conditions, credit outlook, the securities remaining term to maturity, and other relevant facts and considerations.

### **Investment Restrictions**

The following restrictions apply to the Enhanced Cash Fund:

- 1) The California CLASS will invest funds in the Enhanced Cash Fund only in securities defined in the "Eligible Investment" section of this Investment Policy unless there is a change in California law which updates or redefines the types of which are legal investments for California public agencies.
- 2) As required by California law, no funds in the Enhanced Cash Fund will be invested in inverse floaters, range notes, mortgage-derived, interest-only strips or other securities which could result in zero-interest accrual if held to maturity. Notwithstanding the foregoing and as allowed by California law, the California CLASS may invest funds in the Enhanced Cash Fund in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates.
- 3) The California CLASS shall not engage in any transaction that has the effect of creating leverage in the Enhanced Cash Fund, including borrowing money, or pledging, mortgaging, or hypothecating any securities in the Enhanced Cash Fund. Notwithstanding the foregoing, the California CLASS may engage in forward settling purchase and sale transactions in accordance with standard market conventions in the Enhanced Cash Fund.