STATEMENT OF INVESTMENT POLICY

I. PURPOSE

This statement is intended to provide guidelines for the prudent investment of the Town of Truckee's (the "Town") temporarily idle cash, and outline the policies for maximizing the efficiency of the Town's cash management system. The ultimate goal is to enhance the economic status of the Town while protecting its pooled cash.

II. SCOPE

It is intended that this Policy cover all funds and investment activities under the direct authority of the Town.

III. OBJECTIVES

The Town's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the Town to invest funds to the fullest extent possible. The Town attempts to obtain the highest yield obtainable as long as investments meet the criteria established for safety and liquidity. The following objectives will be used as the guide for managing the City's investment portfolio:

1. Safety. The safety and risk associated with an investment refers to the potential loss of principal, interest or a combination of these amounts. Safety is the most important criteria for deciding where and when to invest Town monies. The Town only operates in those investments that are considered very safe.

2. Liquidity. To maintain sufficient liquidity to meet cash flow needs.

3. Yield. This is the potential dollar earnings an investment can provide, and sometimes is described as the rate of return. Yield becomes a consideration only after the basic requirements of safety and liquidity have been met.

4. Market-Average Rate of Return. The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the Town's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments.

5. Diversification. The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

IV. DELEGATION OF AUTHORITY

Pursuant to California Government Code Section 53607, the Town Council's management responsibility for the investment program is hereby delegated for a one-year period to the Administrative Services Director who shall be responsible for the investment of idle funds consistent with this Policy. Subject to review, the Town Council may renew the delegation of authority pursuant to this section each year. The Administrative Services Director may delegate these duties to his/her designee. The day-to-day investment decision making and execution authority may also be delegated to an investment advisor under the supervision of the Administrative Services Director. The investment advisor shall follow this Policy and such other written instructions as are provided.

V. PRUDENCE

Pursuant to California Government Code Section 53600.3, all persons authorized to make investment decisions on behalf of the Town 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."

Authorized individuals acting in accordance with this Policy and written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion.

VI. INTERNAL CONTROLS

A system of internal control shall be established and documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Town. Controls deemed most important include: control of collusion, separation of duties, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions or confirmation to someone other than the one initiating the original transaction, minimizing the number of authorized Investment Officials, documentation of transactions and strategies, and maintaining a code of ethics.

VII. GENERAL INVESTMENT GUIDELINES

1. Investment Transactions. Every instrument transaction must be authorized, documented and reviewed by the Town Administrative Services Director.

2. Pooled Cash. Whenever practical, Town cash should be consolidated into one bank account and invested on a pooled concept basis. Interest earnings may be allocated to fund cash and investment balances.

3. Competitive Bids. Purchase and sale of securities should be made on the basis of competitive offers and bids when practical.

4. Cash Forecast. The cash flow for the Town should be analyzed with the receipt of revenues and maturity of investments scheduled so that adequate cash will be available to meet disbursement requirements.

5. Maximum Maturity. The final maturity of any security purchased by the Town will be five years. Proceeds of debt issuance shall be invested in accordance with the general investment philosophy of the Town as set forth in this policy; however, such proceeds are invested in accordance with permitted investment provisions of their specific bond indentures.

VIII. Acceptable Investment Instruments

California Government Code Sections 53600 et. seq. provide basic investment limits and guidelines for government entities. Within the investments permitted by the Government Code, the Town seeks to further restrict eligible investment to the investments listed below. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters will take precedence.

The Town investment portfolio may purchase and hold the following instruments:

1. U.S. Government: 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. There is no limitation as to the percentage of the Town's portfolio that may be invested in this category.

2. Federal Agencies: 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. There is no limitation as to the percentage of the Town's portfolio that may be invested in this category.

3. Bankers Acceptances: Bankers acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchasers are limited to issuers whose short-term debt is rated A-1/P-1. Banker's acceptances cannot exceed a maturity of 180 days. A maximum of 40 percent of the Town's

portfolio may be invested in this category and a maximum of 5 percent with any one issuer.

4. 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. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (A) or paragraph (B):

   (A) The entity meets the following criteria: (i) Is organized and operating in the United States as a general corporation. (ii) Has total assets in excess of five hundred million dollars ($500,000,000). (iii) Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization.

   (B) The entity meets the following criteria: (i) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (iii) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization.

   Eligible commercial paper shall have a maximum maturity of 270 days or less and not represent more than 10 percent of the outstanding paper of an issuing corporation. A maximum of 25 percent of the Town's portfolio may be invested in this category and a maximum of 5 percent with any one issuer.

5. Negotiable Certificates of Deposit (NCDs): Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a state-licensed branch of a foreign bank. Purchases are limited to institutions whose senior debt is rated "A" or better by Moody's or by Standard & Poor's. A maximum of 30% of the Town's portfolio may be invested in this category and a maximum of 5 percent with any one issuer.

6. Certificates of Deposit (CDs): FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California, including United States branches of foreign banks licensed to do business in California. The Town will only invest in financial institutions with a net worth in excess of one million dollars. The amount on deposit shall not exceed the shareholder's equity of the financial institution. To be eligible for purchase, the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided Government Code Section 53635.2. Certificates of Deposit are required to be collateralized as specified under Government Code Section 53630 et. seq. The Town, at its discretion, may waive the collateralization requirements for any portion that is covered by federal insurance. The maximum maturity of a time certificate of deposit shall not exceed 5 years. A maximum of 30% of the Town's portfolio may be invested in this category and a maximum of 5 percent with any one issuer.

7. Passbook Deposits: This account shall be maintained solely for the following purposes

   (A) Investment of amounts over $100,000 received too late in the day to invest in other instruments; or

   (B) Investment of amounts under $100,000 for periods of up to ten (10) working days in order to fine-tune cash flow and minimize LAIF transactions in a given month.

   Passbook Deposits are required to be collateralized as specified under Government Code Section 53630 et. seq. The Town, at its discretion, may waive the collateralization requirements for any portion of the deposit that is covered by federal insurance. To be eligible to receive deposits, the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided Government Code Section 53635.2. The Town shall have a signed agreement with the depository per Code 53649 Passbook Deposits are to be used solely as short-term investments not to exceed 1 year. There is no limitation as to the percentage of the Town's portfolio that may be invested in this category; however, the amount on deposit shall not exceed the shareholder's equity the financial institution.

8. Repurchase Agreements: The Town may enter into repurchase agreements with primary government securities dealers rated "A" or better by two nationally recognized rating services. Counterparties should also have (i) a short-term credit rating of at least A-1/P-1; (ii) minimum assets and capital size of $25 billion in assets and $350 million in capital; (iii) five years of acceptable audited financial results; and (iv) a strong reputation among market participants.

   The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying repurchase agreements must be delivered to the Town's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each repurchase agreement must equal or exceed 102 percent of the total dollar value of the money invested by the Town for the term of the investment. For any repurchase agreement with a term of more than one day, the value of the underlying securities must be reviewed on an on-going basis according to market conditions. Market value must be calculated each time there is a substitution of collateral.

   The Town or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to repurchase agreement. The Town shall have properly executed a master repurchase agreement with each counter party with which it enters into repurchase agreements. Repurchase agreements are to be used solely as short-term investments not to exceed 1 year. A maximum of 30 percent of the Town's portfolio may be invested in this category.

9. Medium Term Notes: Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, 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. Purchases are limited to securities rated "A" or better by Moody's or Standard & Poor's. A maximum of 30 percent of the Town's portfolio may be invested in this category and a maximum of 5 percent with any one issuer.

10. Money Market Funds: 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 (15 U.S.C. Sec. 80a-1 et seq.). To be eligible for purchase, the company shall have met either of the following criteria:

    (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

    (B) 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 $500,000,000.

    A maximum of 20 percent of the Town's portfolio may be invested in this category.

11. Local Agency Investment Fund (LAIF): The Local Agency Investment Fund has been established by the State Treasurer for the benefit of local agencies. The Town may invest up to the maximum permitted by the LAIF.

Summary of Investment Requirements[1]

Investment Type	Town Minimum Quality Parameters	Code Minimum Quality Parameters	Town Maximum % of Portfolio	Code Maximum % of Portfolio	Town Maximum Maturity	Code Maximum Maturity
U.S. Treasury Obligations	None	None	None	None	5 Years	5 Years
Federal Agency Obligations	None	None	None	None	5 Years	5 Years
Bankers Acceptances	A1/P1	None	40% 5%/issuer	40% 30%/issuer	180 Days	180 Days
Commercial Paper	A1/P1/F1	A1/P1/F1	25% 5%/ issuer	25%	270 Days	270 Days
Negotiable Certificates of Deposits	"A" rated financial institutions	None	30% 5%/issuer	30%	5 Years	5 Years
Certificates of Deposit	None	None	30% 5%/ issuer	None	5 Years	None
Passbook Deposits	None	None	None	None	1 Year	None
Repurchase Agreements	"A" rated primary dealers	None	30%	None	1 Year	1 Year
Medium-Term Notes	A	A	30% 5% issuer	30%	5 Years	5 Years
Money Market Funds	Multiple[2]	Multiple[2]	20%	20%	N/A	N/A
Local Agency Investment Fund	None	None	$40 million	$40 million	N/A	N/A

Notes:

1. The table is a summary of the key requirements. Additional requirements may apply as listed under this Policy and California Government Code Section 53691.
2. Must receive the highest rating by two of the three largest nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC and has not less than five years experience managing money market funds with assets under management in excess of $500 million.

IX. PORTFOLIO RISK MITIGATION

A. Mitigating credit risk in the portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The Town shall mitigate credit risk by adopting the following strategies:

1. The diversification requirements included in Section VIII are designed to mitigate credit risk in the portfolio;

2. No more than 5% of the total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities;

3. The Town may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or the Town's risk preferences; and

4. If securities owned by the Town are downgraded by either Moody's or S&P to a level below the quality required by this Investment Policy, it shall be the Town's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

a. If a security is downgraded two grades below the level required by the Town, the security shall be sold immediately.

b. If a security is downgraded one grade below the level required by this policy, the Administrative Service Director will use discretion in determining whether to sell or hold the security based on its current maturity, the loss in value, the economic outlook for the issuer, and other relevant factors.

c. If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the Town Council.

B. Mitigating market risk in the portfolio

Market risk is the risk that the portfolio will decline in value (or will not optimize its value) due to changes in the general level of interest rates. The Town recognizes that, over time, longer-term portfolios achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The Town shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making some longer-term investments only with funds that are not needed for current cash flow purposes. The Town further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile

of the portfolio differently in different interest rate environments. The Town, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

1. The maximum stated final maturity of individual securities in the portfolio shall be five years, except as otherwise stated in this policy;

2. The Town shall maintain a minimum of three months of budgeted operating expenditures in short term investments; and

3. The duration of the portfolio shall at all times be approximately equal to the duration of an index of US Treasury and Federal Agency Securities with maturities which meet the Town's needs for cash flow and level of risk tolerance (the Benchmark Index) plus or minus 20%.

X. INELIGIBLE INVESTMENTS

Investments not described herein, including but not limited to common stocks and financial futures contracts and options, are prohibited in this fund. As provided in California Government Code Section 53601.6, the Town shall not invest any funds in inverse floaters, range notes, mortgage derived interest-only strips or in any security that could result in zero interest accrual if held to maturity. The purchase of any security not listed in Section VIII. above, but permitted by the California Government Code, is prohibited unless the Town Council approves the investment either specifically or as a part of an investment program approved by the Town Council.

XI. BANKS AND SECURITIES DEALERS

The Administrative Services Director shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment purposes. Selection of financial institutions and broker/dealers authorized to engage in transactions with the Town shall be at the sole discretion of the Town. It shall be the Town's policy to purchase securities only from those authorized institutions and firms. The Town shall annually send a copy of the current investment policy to all dealers approved to do business with the Town. Each broker dealer or financial institution that has been authorized by the Administrative Services Director shall be required to submit the firm's most recent financial statement. If an investment advisor is used, they may use their own list of approved broker/dealers and financial institutions for investment purposes.

XII. SAFEKEEPING AND CUSTODY

All security transactions entered into by the Town shall be conducted on a delivery-versus-payment (DVP) basis. All cash and securities in the Town's portfolio, including those that are managed by an investment advisor, shall be held in safekeeping in the Town's name by a third party bank trust department, acting as agent for the Town under the terms of a custody agreement executed by the bank and the Town. The only exception to the

foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) money market mutual funds, since the purchased securities are not deliverable. Evidence of each these investments will be held in the Treasury vault.

XIII. REPORTING

The Administrative Services Director will submit a quarterly report to the Town Council. The report will include:

- A list of investment transactions
- Type of Investment
- Issuer
- Date of Maturity
- Par and dollar amount invested on all securities
- Current market value of each security and the source of the valuation
- Credit quality of each investment, as determined by one or more nationally recognized credit rating services
- Statement that portfolio is in compliance with investment policy or the manner in which the portfolio is not in compliance
- Statement denoting ability of City to meet its expenditure requirements for the next six months, or provide sufficient explanation why money is not available

XIV. INVESTMENT PROGRAM REVIEW

A staff investment committee consisting of the Administrative Services Director and Town Manager will convene at least once a year to review the investment program. Such review shall examine both policy and administrative procedures in the program for possible revision. The committee will review interest rate trends and resultant desirable investment maturity goals consistent with the Town's needs for safety and liquidity in its investment program. This meeting will normally occur in May. A summary of the review findings will be submitted to the Town Council at which time the investment policy for the coming fiscal year will be adopted at a public meeting.