

**INVESTMENT TRUST OF CALIFORNIA,
doing business as**

A JOINT POWERS AUTHORITY



INVESTMENT POLICY

FOR THE SHARES PROGRAM

EFFECTIVE AS OF:

**FEBRUARY 24, 2005
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INVESTMENT POLICY FOR THE SHARES PROGRAM

The following are the investment objectives, policies and restrictions (collectively, the “Investment Policy”) for each of the three separately managed programs (each, a “Series”) within the investment program offered by Investment Trust of California, doing business as CalTRUST (“CalTRUST”), whereby participants (“Participants”) invest in shares issued by CalTRUST (the “Shares Program”).

The three Programs of the Shares Program are the “CalTRUST Liquidity Fund” Series (the “Liquidity Fund”), the “CalTRUST Short-Term Fund” Series (the “Short-Term Fund”), and the “CalTRUST Medium-Term Fund” Series (the “Medium-Term Fund”).

All capitalized terms used, but not otherwise defined, herein shall have the meanings ascribed to such terms in the Information Statement for the Shares Program (the “Information Statement”) or the Joint Exercise of Powers Agreement (the “Agreement”). THE INFORMATION STATEMENT AND AGREEMENT PROVIDE FURTHER DETAILED INFORMATION ABOUT THE SHARES PROGRAM AND CALTRUST. PARTICIPANTS SHOULD READ THEM BOTH CAREFULLY PRIOR TO PARTICIPATING IN THE SHARES PROGRAM.

A. PURPOSE

CalTRUST is a California joint powers authority and public agency established under the provisions of Title 1, Division 7, Chapter 5 of the California Government Code (the “Joint Exercise of Powers Act”), to provide Public Agencies with consolidated investment activities thereby reducing duplication, achieving economies of scale and carrying out coherent and consolidated investment strategies.

B. WHO MAY INVEST

Each Participant must be: (1) a California “Public Agency” as that term is defined in Section 6509.7 of Title 1, Division 7, Chapter 5, Article 1 of the California Government Code (the “Joint Exercise of Powers Act”), which, as of the date hereof, is defined as “the federal government or any federal department or agency, this state, another state or any state department or agency, a county, county board of education, county superintendent of schools, city, public corporation, public district, or regional transportation commission of the State of California or another state, or any joint powers authority formed pursuant to [article 1 of the Joint Exercise of Powers Act] by any of these agencies,” and includes “a nonprofit corporation whose membership is confined to public agencies or public officials;” and (2) either the United States, a State, or any political subdivision of a State, or any agency, authority or instrumentality of any one or more of the foregoing, or any corporation which is wholly owned directly or indirectly by any one or more of the foregoing, as those terms are used in the Investment Company Act of 1940, as amended.

C. SERIES BENCHMARKS

The performance benchmarks for the Liquidity Fund, Short-Term Fund, and Medium-Term Fund are specified below:

<u>Liquidity Fund</u> :	<u>Three Month Treasury Bill</u>
Short-Term Fund:	Local Agency Investment Fund Barclays Short-Term U.S. Government/Corporate Index
Medium-Term Fund:	Merrill Lynch U.S. Corporate & Government 1-3 Years, “A” Rated or Above Index

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D. INVESTMENT BENEFITS

By purchasing Shares in any Series, the Investment Advisor seeks to provide the following benefits:

- **Preservation of Principal.** Preserve principal to the extent reasonably possible in accordance with the applicable investment strategy by investing only in fixed-income oriented Authorized Investments, and in accordance with an investment strategy designed to preserve capital.
- **Liquidity.** Provide liquidity so that Participants have ready access to their Shares to the extent described in this Information Statement.
- **Income.** Provide as high a level of current income in each Series as is consistent with preserving principal and maintaining liquidity.
- **Professional Management.** Investments are managed by investment professionals that follow both general economic and current market conditions affecting interest rates and the value of fixed-income oriented investments
- **Diversification.** Each Participant in a Series will own Shares in a diversified portfolio of high quality securities.
- **Accounting, Safekeeping and Separate Series.** The Participants' investments are accounted for in compliance with governmental accounting and auditing requirements, and Participants will be provided with all necessary information to do the bookkeeping and safekeeping associated with the ownership of the Shares. Participants will have secure online access to their accounts, as well as being provided with monthly statements.

There can be no assurance that the investment objectives of any particular Program will be achieved.

E. AUTHORIZED INVESTMENTS

The Shares purchased by the Investment Advisor will be comprised exclusively of the following investments (the "Authorized Investments"). These investments are authorized investments under the California Government Code, as may be amended from time to time, for money not required for the immediate needs of Local Agencies. The California Government Code limits the amount of surplus money of a Local Agency which may be invested in certain of the investments described below. Each Participant shall be responsible for monitoring the aggregate amount of its investments in any of these kinds of investments, to assure its own compliance with the California Government Code. None of the Investment Advisor, the Administrator or Ca/TRUST shall be responsible for such monitoring. ***The Board may revise this Investment Policy from time to time subject to Section 4.2(a) of the Agreement.*** Pursuant to the Agreement, the Board shall cause the amended Investment Policy to be delivered to each Participant. The Investment Policy may additionally be administratively revised to reflect updates to California Government Code.

- 1) Unites 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.
- 2) 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.
- 3) Bonds, notes, warrants, or other evidences of indebtedness of any 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.

- 4) 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.
- 5) 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.
- 6) Bankers acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers acceptances may not exceed 180 days' maturity or 40 percent of the assets in a Series. However, no more than 30 percent of the assets in a Series may be bankers acceptances of any one commercial bank.
- 7) 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 criteria in either clause (a) or (b): (a)(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) and (iii) has debt other than commercial paper, if any, that is rated "A" or higher, without gradation, by an NRSRO; or (b)(i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond and (iii) has commercial paper that is rated "A-1" or higher, without gradation, or the equivalent, by an NRSRO. Eligible commercial paper shall have a maximum maturity of 270 days or less. No more than 25 percent of the assets in a Series may be eligible commercial paper. No more than 10 percent of the assets in a Series may be outstanding commercial paper of any single issuer. No more than 10 percent of the outstanding commercial paper of any single issuer may be purchased for a Series.
- 8) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by 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. Purchases of negotiable certificates of deposit may not exceed 30 percent of the assets in a Series. Purchases shall not exceed the shareholder's equity of any depository bank. Shareholder's equity shall be determined in accordance with Section 118 of the California Financial Code, but shall be deemed to include capital notes and debentures. Purchases shall not exceed the total of the net worth of any savings association or federal association, except that deposits not exceeding a total of five hundred thousand dollars (\$500,000) may be made to a savings association or federal association without regard to the net worth of that depository, if such deposits are insured or secured as required by law. Purchases of negotiable certificates of deposit from any regularly chartered credit union shall not exceed the total of the unimpaired capital and surplus of the credit union, as defined by rule of the California Commissioner of Financial Institutions, except that the deposit to any credit union share account in an amount not exceeding five hundred thousand dollars (\$500,000) may be made if the share accounts of that credit union are insured or guaranteed pursuant to Section 14858 of the California Financial Code or are secured as required by law. Purchases of negotiable certificates of deposit issued by a state or federal credit union are prohibited if a member of the CalTRUST Board of Trustees, or any person with investment decision making authority for CalTRUST, also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.
- 9) Investments in repurchase agreements of Authorized Investments as long as the agreements are subject to the requirements of California Government Code Section 53601(j), including the delivery requirements specified in California Government Code Section 53601(j). "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. Investments in repurchase agreements may be made, on any Authorized Investments, when the term of the agreement does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be 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 percent no later than the next business day.

- 10) 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. Notes eligible for investment under this subsection shall be rated "A" or better, without gradation, by a nationally recognized rating service. Purchases of medium-term notes (not including other Authorized Investments) may not exceed 30 percent of the assets in a Series.
- 11) 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 companies shall have attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs or 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 subsection shall not include any commission that the companies may charge and shall not exceed 20 percent of the assets in a Series.
- 12) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by California Government Code Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by California Government Code Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank which is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted
- 13) Any 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 of a maximum of five years maturity. Securities eligible for investment under this subsection shall be issued by an issuer having an "A" or higher rating, without gradation, for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "AA" or its equivalent or better, without gradation, by a nationally recognized rating service. Purchase of securities authorized by this subsection may not exceed 20 percent of the assets in a Series.
- 14) 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 under this subdivision shall be rated "AA", without gradation, or better by an NRSRO and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.

Funds invested through a Series will be invested by the Investment Advisor in accordance with the prudent investor standard of the California Government Code. Any investments consisting of notes, bonds, bills, certificates of indebtedness, warrants, or registered warrants shall be legal investments for savings banks in the State. Funds invested through a Series will not be invested in any inverse floaters, range notes or mortgage-derived, interest-only strips, or in any security that could result in zero interest accrual if held to maturity.

F. DURATION OF SERIES AND MATURITY OF INVESTMENTS

Each Series seeks to attain as high a level of current income as is consistent with the preservation of principal. Each Series will invest in only fixed-income oriented Authorized Investments. The Short-Term Fund seeks a target portfolio duration of 0 to 2 years. The Medium-Term Fund seeks a target portfolio duration of 1 ½ to 3 ½ years. The Long-Term Fund seeks a target portfolio duration of 5 to 7 years.

Each Series will invest in a diversified portfolio of fixed-income oriented investments of varying maturities with a different portfolio “duration.” Duration is a measure of the expected life of a fixed-income oriented investment that was developed as a more precise alternative to the concept of “term to maturity.” Duration incorporates a bond’s yield, coupon interest payments, final maturity, call and put features and prepayment exposure into one measure. Traditionally, a fixed-income oriented investment’s “term to maturity” has been used to determine the sensitivity of the investment’s price to changes in interest rates (which is the “interest rate risk” or “volatility” of the investment). However, “term to maturity” measures only the time until a fixed-income oriented investment provides its final payment, taking no account of the pattern of the investment’s payments prior to maturity. Duration is used in the management of Series as a tool to measure interest rate risk. For example, a Series with a portfolio duration of two years would be expected to change in value 2% for every 1% move in interest rates.

G. INVESTMENT RESTRICTIONS

The Board has adopted the following investment restrictions for the Shares Program, which may not be changed in a material way by the Board, except as may be required by applicable law, without the approval of the Participants holding a majority of the Shares in the affected Series. Funds invested through a Series will not be used to:

- 1) Purchase any securities other than those described under “Authorized Investments,” unless California law at some future date redefines the types of securities which are legal investments for all classes of Participants, in which case the permitted investments for the Series may be changed by the Board to conform to California law.
- 2) Invest in securities of any issuer in which a Trustee, officer, employee, agent or adviser of CalTRUST is an officer, director or 5% shareholder unless such investment is periodically authorized by resolution adopted by the Board, excluding officers, directors or 5% shareholders of such issuer.
- 3) Make loans, except that repurchase agreements may be entered into as specified under “Authorized Investments.”
- 4) Borrow money or pledge, hypothecate or mortgage the assets in a Series or otherwise engage in any transaction that has the effect of creating leverage with respect to a Series; *provided, however*, that short-term credits necessary for the settlement of securities trades may be used, and forward purchases and sales of securities that are expected to settle beyond a normal “T+3” basis may be entered into.
- 5) Purchase the securities of any issuer (other than obligations issued and guaranteed as to principal and interest by the government of the United States, its agencies or instrumentalities) if, as a result, more than 10% of the total assets in a series would be invested in the securities of any one issuer.

H. APPLICATION OF PERCENTAGES

Any percentage limitation or rating requirement described in this Investment Policy will be applied at the time of purchase.