NCPA NORTHERN CALIFORNIA POWER AGENCY	POLICIES & PROCEDURES MANUAL	No. 200-100 Owner: Accounting & Finance	Effective: 9-1993 Updated 05-2023
SUBJECT:	Investment Policy and Guidelines	APPROVED: RANDY S. HOWARD, GENERAL MANAGER	

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POLICY

It is the policy of the Northern California Power Agency (NCPA, the Agency) to secure, protect and manage the funds of the Agency and invest surplus funds in a manner which will:

- comply with applicable California state and local laws and bond indenture provisions;
- ensure safety of the principal;
- provide an appropriate level of liquidity so that money is available when reasonably expected to be required for payment of obligations; and,
- attain a market yield with no undue risks taken to maximize income at the expense of safety, liquidity, or investment quality.

PURPOSE AND SCOPE

The purpose of this policy is to establish general guidelines for the management of cash and investments of the Agency. The policy pertains to all financial assets of the Agency and any other funds under the control of the Treasurer-Controller and concerns the deposit, investment, maintenance, and safekeeping of all such assets.

The funds covered by this policy are consolidated for reporting purposes in NCPA's Annual Combined Financial Statements including:

- Operating Fund
- Scheduling and Coordination Program Agreement Balancing Account
- Hydroelectric Capital Development Reserve
- General Operating Reserve
- Geothermal Decommissioning Reserve
- Maintenance Reserve Funds
- Other Collateral Reserves and Deposits
- Debt Service Funds

Proceeds of debt issuance and other indentured funds shall be invested in accordance with the Agency's general investment philosophy as set forth in this policy; however, such monies are to be invested in accordance with permitted investment provisions of their specific bond indentures. See attachment 5.

This Policy does not apply to any pension moneys, deferred compensation funds, or the Other Post Employment Benefit Trust.

RESPONSIBILITY

The Treasurer-Controller is responsible for establishing proper safeguards, controls, and procedures to maintain Agency funds in a lawful, rational, and prudent manner. The Treasurer-Controller is responsible for the development of the overall investment policy as well as for the development and ongoing administration of the various portfolio strategies, tactics, performance monitoring and monthly reporting to the Commission.

The Assistant General Manager/Chief Financial Officer (CFO) is responsible for overseeing the development and implementation of investment policy review and approval of the portfolio investment strategies, and policy compliance.

PRUDENCE, PERSONAL RESPONSIBLITY, AND ETHICS

Prudence: The standard of prudence to be used by the Treasurer-Controller shall be the Prudent Investor Standard and shall be applied in the context of managing the Agency's overall portfolio. Management of the Agency's investments is governed by the Prudent Investor Standard as set forth in California Government Code Section 53600.3 which states:

> **"…**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."

Ethics: The Treasurer-Controller and other authorized persons involved in the investment process (1) will refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions and (2) shall not accept honoraria, gifts or gratuities from any advisor, broker, dealer, banker, or other person with whom the Agency conducts business, which has an aggregate value in excess of $50.00 in any 12-month period.

The Treasurer-Controller must annually file a Form 700 (Statement of Economic Interests) in accordance with the NCPA Conflict of Interest Code. Furthermore, the Treasurer-Controller must refrain from undertaking personal investment transactions with the same individual(s) employed by the financial institution(s) with whom business is conducted on behalf of the Agency.

Personal Responsibility: The Treasurer-Controller and other authorized persons responsible for managing Agency funds, acting in accordance with the Investment Policy and exercising due diligence, will be relieved of personal responsibility for an individual security's credit risk or market price changes, provided appropriate action is taken to control adverse developments.

GENERAL OBJECTIVES

The overriding objectives of the investment program are to preserve principal, provide sufficient liquidity, and achieve a reasonable rate of return. The specific objectives for the program are ranked in order of importance:

1. ***Safety***: Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, NCPA will diversify its investments by investing funds among a variety of securities with independent returns.
2. ***Liquidity***: The investment portfolio will remain sufficiently liquid to enable NCPA to meet all operating requirements that may be reasonably anticipated.

3. ***Return on Investments***: The Agency's investment portfolio will be designed with the objective of attaining comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles taking into account the investment risk constraints identified in the Investment Policy and the cash flow characteristics of the portfolio.

PORTFOLIO RISK MANAGEMENT

Factors that can lead to an unexpected financial loss can be broadly grouped into the following categories; credit risk, market risk, and liquidity risk.

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 Agency will mitigate credit risk by adopting the following strategies:

1. Diversify the investment portfolio to mitigate losses due to failure of individual issues or issuers;
2. Limit the amount of the total portfolio that may be invested in securities of a particular type and any single issuer. Authorized investment limitations under this policy are shown in Attachment 4; and,
3. If securities owned by the Agency are downgraded by at least one Nationally Recognized Statistical Rating Organization (NRSRO) to a level below the quality required by this Investment Policy, it will be the Agency's policy to review and document the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.
    a. The Treasurer-Controller will use discretion in determining whether to sell or hold the security based on its maturity, the economic outlook for the issuer, and other relevant factors.
    b. 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 governing board.

Mitigating market risk in the portfolio: Market risk, also referred to as interest rate risk, is the risk that the portfolio value will fluctuate due to changes in interest rates. The Agency recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility when marked-to-market. The Agency will mitigate interest rate risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The Agency, therefore, shall adopt the following strategies to control and mitigate its exposure to market risk:

1. The Agency will maintain working capital reserves for budgeted operating expenditures in short-term investments to provide sufficient liquidity for expected disbursements;
2. The maximum time from investment, defined as the settlement date, to maturity of individual securities in the portfolio will be five years, except as otherwise stated in this policy.

Mitigating liquidity risk in the portfolio: Liquidity risk is the inability to convert a security to cash on a given date prior to maturity. It refers to the inability to sell a security for its cost and therefore it may have to be sold at a loss. The Agency shall employ the following strategies to control and mitigate its exposure to liquidity risk:

1. To the extent possible, match investment maturities with anticipated cash demands.

2. Since all possible cash demands cannot be anticipated, maintain portfolios largely of securities with active secondary or resale markets.
3. The Agency will maintain working capital reserves for budgeted operating expenditures in short-term investments to provide sufficient liquidity for expected disbursements.

AUTHORIZED AND SUITABLE INVESTMENT SECURITIES

All investments will be made in accordance with Sections 53600 *et seq.* of the Government Code of the State of California and as described within this Investment Policy. Authorized investments under this policy are listed in Attachment 3 and shown in Attachment 4.

PROHIBITED INVESTMENT VEHICLES AND PRACTICES

1. Notwithstanding that any such investment is permitted under State Law, any investment not specifically described herein is prohibited, including, but not limited to derivatives, futures and options.
2. In accordance with California Government Code Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
3. Investment in any security that could result in a zero-interest accrual if held to maturity is prohibited, with the exception of 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[1].
4. Trading securities for the sole purpose of speculating, whether on the future direction of interest rates or otherwise, is prohibited.
5. Purchasing or selling securities on margin is prohibited.
6. The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.
7. The purchase of foreign currency denominated securities is prohibited.

AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Treasurer-Controller shall maintain a list of approved brokers, dealers, banks and direct issuers of commercial paper to provide investment services to the Agency. The Agency shall conduct security transactions only with approved institutions and firms. The firms and individuals assigned to NCPA shall be reputable and trustworthy. Broker/dealers staff assigned to NCPA accounts must have at least five years of experience in California public agency investing and knowledge of investment products acceptable under the NCPA Investment Policy. To be eligible for approval, all broker/dealer firms must qualify under SEC Rule 15C3-1 (Uniform Net Capital Rule), must be registered with the Financial Industry Regulatory Authority (FINRA) and must be licensed to do business in the State of California and institutions shall have one or more of the following attributes:

- be recognized as a primary government dealer as designated by the Federal Reserve Bank;
- be a regional broker/dealer headquartered in the State of California; or
- be a national or state-chartered bank which is a member of the FDIC; or
- be a direct issuer of securities eligible for purchase by the Agency.

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[1] This provision sunsets on or after January 1, 2026, unless a subsequent bill amends Section 53601.6 of the Government Code.

Broker/dealers and financial institutions will demonstrate the above by providing the following information to the Treasurer-Controller on and with the Agency's Broker/Dealer Questionnaire included in Attachment 5;

- Proof of registration with FINRA
- Proof of registration with the State of California
- Completed Broker/Dealer questionnaire including certification of review and willingness to comply with all aspects of this Investment Policy
- Audited financial statements for the three most recent fiscal years

Deposits will be made only in qualified public depositories within the state of California as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

A pool of qualified financial institutions and dealers will be maintained by the Treasurer-Controller using criteria based upon capitalization, credit worthiness, experience, reference checks and services offered. Selection of financial institutions and broker/dealers authorized to engage in transactions with the Agency will be at the sole discretion of the Agency.

An annual review of the financial condition and registrations of broker/dealers may be conducted by the Treasurer-Controller and a current financial statement requested for each financial institution and broker/dealer with whom the Agency invests.

DELEGATION OF AUTHORITY, INTERNAL CONTROL, AND ACCOUNTING

Authority to manage the Agency's investment program is derived from the California Government Code Sections 53600 *et seq.* Management responsibility for the investment program is delegated to the Treasurer-Controller by Agency Commission Resolution No. 83-103. Pursuant to Government Code section 53607 such delegation may be granted for a period of one-year and must be renewed annually. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer-Controller or his/her designee.

The Treasurer-Controller shall establish and maintain a system of internal controls designed to ensure: adherence to this investment policy, the prevention and detection of errors, theft, fraud, and misuse, the accuracy and completeness of accounting records and the timely preparation of reliable financial information. As such, the Treasurer-Controller shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

The Agency maintains its records on the basis of Plant/Program account groups, each of which may include one or more investment funds. All investment transactions shall be recorded in the various funds of the Agency in accordance with Generally Accepted Accounting Principles as promulgated by the Government Accounting Standards Board.

SAFEKEEPING, CUSTODY, AND COLLATERALIZATION

All security transactions, including collateral for repurchase agreements, entered into by the Agency shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in the name of the Agency by a third-party custodian designated by the Treasurer-Controller and evidenced by trade confirmations and safekeeping holdings report or receipt.

Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value for Certificate of Deposits and 102% of market value of principal and interest for repurchase agreements.

DIVERSIFICATION

NCPA's portfolio will be suitably diversified by type and institution in an effort to reduce portfolio risk while attaining market average rates.

Security Type and Institution - U.S. Treasury securities and authorized pools, and any portfolio or institutional limits shall comply with California Government Code. Investments are further limited by specific language relating to each investment type as listed in Attachment 3 and shown in Attachment 4 of this Policy.

MAXIMUM MATURITY

To the extent possible, the Agency will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, NCPA will not directly invest in securities maturing more than five years from the settlement date. NCPA matches cash flows of investments for final debt service requirements and may invest Debt Service Reserve funds fifteen years from the settlement date in accordance with respective bond covenants restrictions and Attachment 2 of this policy. NCPA matches cash flows for investment of the Geothermal Decommissioning Fund with future decommissioning activities and may invest funds up to ten years from the settlement date in accordance with Attachments 3 and 4 of this Policy.

REPORTING REQUIREMENTS

In accordance with Government Code section 53607, the Agency Commission has delegated management responsibility for the NCPA investment program to the Treasurer-Controller, who has the responsibility to make a monthly report of transactions to the Commission during such delegation.

A monthly report will be provided to the Commission by the Treasurer-Controller. The report shall state compliance of the investment portfolio to the investment policy and a statement that the Agency has adequate cash flow and investment maturities to meet next month's cash requirements and such other information as may be required by State law.

The report will disclose, at a minimum, the following information:

1. An asset listing showing par value, cost adjusted for amortization of premiums and accretion of discounts and market value of each security, type of investment, issuer, and interest rate;
2. The Treasurer-Controller's report shall also provide:
    a. an analysis of investment maturities;

b. a summary of cash and investment activity; and,
c. an analysis of interest rates/yields with a comparison to benchmark interest rates.

REVIEW OF INVESTMENT PORTFOLIO

The securities held by NCPA must be compliant with the Authorized and Suitable Investment Securities listed and reflected in the List of Permitted Investments (Attachment 3) and the Table of Permitted Investment (Attachment 4) at the time of purchase. Because some securities may not comply with the Authorized and Suitable Investment Securities subsequent to the date of purchase, the Treasurer-Controller should at least annually review the portfolio to identify those securities that no longer comply. The Treasurer-Controller will assess all non-compliant investments and determine if the Agency should continue to hold the investments or sell them, The Treasurer-Controller will report all non-compliant securities to the Commission on the monthly Treasurer's Report until such time that the investment matures or the Agency sells them.

INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of the pool/fund is required prior to investing and on a continued basis thereafter. Best efforts will be made to acquire the following information for each:

1. A description of eligible investment securities and a written statement of investment policy and objectives.
2. A description of interest calculations, how interest is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes) and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, and what size of deposits are withdrawals and allowed.
5. A schedule for receiving statements and portfolio listings.
6. About how reserves, retained earnings, etc. are utilized by the pool/fund.
7. A fee schedule and when and how fees are assessed.
8. About whether the pool/fund is eligible for bond proceeds and will accept such proceeds.

INVESTMENT OPERATIONS GUIDELINES

The following general operating guidelines shall be used in performing all investment functions:

- All investments will be made in the name of the Northern California Power Agency.
- All investments will be made in compliance with the NCPA Investment Fund Objectives (Attachment 2) and the NCPA List and Table of Authorized Investments (Attachments 3 and 4) unless otherwise required by bond indenture.
- Investments or collateral for all outside trusteed accounts must be delivered to the trustee.
- Investments or collateral for all accounts held by NCPA will be delivered to and held in the safekeeping of an authorized financial institution.
- All investment transactions will be recorded in the accounts of the Agency in accordance with Generally Accepted Accounting Principles as promulgated by the Government Accounting Standards Board. All accrued interest on purchased securities will be charged to the appropriate interest income account.

- Funds deposited in banks or savings and loan associations must be held under a written contract between the Agency and the institution, which requires collateralization as prescribed by law and/or this investment policy.
- Whenever practical Agency cash is to be consolidated and invested on a pooled concept basis. Interest earnings are allocated monthly according to monthly weighted average balance for each fund.
- Unless otherwise restricted, all holdings will be of sufficient size and held in issues which are actively traded to facilitate transactions at a minimum cost and accurate market valuation.
- Passive management portfolio strategies are preferred for all operating projects or other Agency programs, unless otherwise prohibited or restricted. The Agency purchases investments with the intention to hold to maturity. When it is in the best interest of its members and participants, the Agency may rebalance the portfolio consistent with its Investment Policy and Plan.
- When practicable, competitive bidding will be utilized for all investment and reinvestment activities not involving escrowed or other funds covered by a separate contract or agreement.

PERFORMANCE BENCHMARK

The investment portfolio will be designed to obtain a market rate of return during budgetary and economic cycles, taking into account the Agency's investment risk constraints and cash flow needs. The Finance Committee has elected to use the 12-month moving average Constant Maturity Treasury (CMT) Index for the performance standard of the portfolio's major funds with various maturities based on each fund's cash flow requirements. Benchmarks may change over time based on changes in market conditions or cash flow requirements. Changes in benchmarks will be discussed with and agreed upon by the Finance Committee prior to implementation. The revised benchmark will be reflected in the subsequent Investment Policy update submitted for Commission approval.

INVESTMENT POLICY ADOPTION

The NCPA investment policy shall be adopted by resolution of the Agency Commission. The policy shall be reviewed annually by the Finance Committee and recommended for approval to the NCPA Commission and any modifications made thereto must be approved by the Commission.

The Treasurer-Controller shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures shall include reference to safekeeping, master repurchase agreements, wire transfer agreements, banking and service contracts and collateral/depository agreements. *The procedures will explicitly identify the delegation of authority to persons responsible for investment transactions and related activities*. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by NCPA.

REFERENCE

- California Government Code Section 53600 et seq.
- Joint Powers Agreement, Article II, Section 4.5 (as amended)
- NCPA Resolution No. 12-72, Authorized Officers for Transactions with the State of California Local Agency Investment Fund (LAIF)
- NCPA Resolution No. 83-103, Establishing the position of Treasurer-Controller

ATTACHMENTS

Attachment 1 - Glossary of Investment Terms
Attachment 2 - Investment Fund Objectives
Attachment 3 - List of Permitted Investments
Attachment 4 - Table of Permitted Investments
Attachment 5 – Northern California Power Agency Broker/Dealer Questionnaire
Attachment 6 - Table of Bond Indenture Permitted Investments
Attachment 7 – Credit Rating Comparison

VERSION HISTORY

No.	Explanation	Date	Author
10	Added Conflict of Interest Code and Form 700 language, clarified language that investment's term is effective from the settlement date and added to Glossary; added Broker requirements language, annual review requirement, and Broker/Dealer Questionnaire in attachments. Updated collateralization language; included new sections for Diversification, Maximum Maturity, Review of Portfolio, Investment Pools/Mutual Funds, and Investment Policy Adoption. Added CLASS investment pool to List and Table of Permitted Investment attachments. Clarified maximum percentage of portfolio that can be invested per fund for mutual funds is 5% and revised maximum percentage per money market mutual fund to 20% in List and Table of Permitted Investments attachments; added clarification language in Performance Benchmarks; added clarification to Table of Permitted Investments; reorganized sections; general language cleanup.	05/23	SA
9	Added portfolio rebalancing, performance benchmark, and zero or negative interest accrual during periods of negative interest rates language. Added attachment for List of Permitted Investments, updated Table of Permitted Investments to included applicable government section codes, revise investment titles, reduce maximum investment in commercial paper, and updated rating requirement and other language.	05/22	SA
8	Increased maximum percentage of portfolio limit for municipal bonds to 30%. Added Attachment 3 footnote defining parameters for Agency purchase of members' municipal bonds and updated Attachment 4 footnote to specify 2019 Capital Facilities Indenture.	2/21	SA
7	Revisions to permitted investments; update note on Credit Ratings Comparison attachment to reflect minimum rating category of A.	2/20	SA
6	Minor language clean-up; updates to the Permitted Investments; and changes to the Investment Fund Objectives	8/17	MH
5	Revised a resolution reference Updated maximum investment permitted by LAIF Added Authorized Financial Institution	11/16	SA
4	Annual review, no changes	11/15	SA
3	Annual review, no changes	11/14	KWW

2	Combined prior policies 200-97 and 200-98; updated to include more information on allowable investments, delegations, authorized financial institutions, and operations practices, Includes expanded attachments and glossary.	11/13	KWW
1	Updated	9/95	DBL
0	Original Policy	9/93	DBL

ATTACHMENT 1
GLOSSARY OF INVESTMENT TERMS

Agencies - Shorthand market terminology for any obligation issued by *a government sponsored enterprise (GSE),* or a *federally related institution*. Most obligations of GSEs **are not guaranteed** by the full faith and credit of the US government. Examples are:

- FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.
- FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.
- FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called "Freddie Mac" issues discount notes, bonds and mortgage pass-through securities.
- FNMA. Like FHLB and Freddie Mac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "Fannie Mae," issues discount notes, bonds and mortgage pass- through securities.

Certain GSE obligations **are guaranteed** by the full faith and credit of the US government. An example is:

- GNMA**.** The Government National Mortgage Association, known as "Ginnie Mae," issues mortgage pass-through securities.

Callable - A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since an issuer issues securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

Certificate of Deposit (CD) - A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

Collateral - Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

Commercial paper - Short-term unsecured debt of corporations.

Coupon - The rate of return at which interest is paid on a bond.

Current yield - The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

Dealer - A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position

Delivery vs. payment (DVP) - A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

Demand Deposit – Sometimes referred to as a sight or on call deposit, can be withdrawn at any time (on demand) without notice or penalty; e.g., deposits into checking or savings accounts.

Derivative - Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from

other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate or index.
Discount - The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as **discount securities**. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.
Diversification - Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.
Duration - The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See modified duration).
Federal funds rate - The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.
Financial Industry Regulatory Authority (FINRA) - A self-regulatory organization for brokerage firms doing business in the United States. FINRA operates under the supervision of the SEC. The organization's objectives are to protect investors and ensure market integrity.
Investment's Term or Remaining Maturity – measured from the settlement date to final maturity. The Government Code prohibits the purchase of a security with a forward settlement date exceeding 45 days from the time of investment.
Liquidity - refers to the requirement that some portion of cash assets be invested in securities readily convertible into cash without loss of capital.
Make whole call - A type of call provision on a bond allowing the issuer to pay off remaining debt early. The issuer has to make a lump sum payment derived from a formula based on the net present value (NPV) of future coupon payments that will not be paid because of the call. Investors will be compensated, or "made whole."
Market value - The price at which a security can be traded.
Mark to market - The process of posting current market values for securities in a portfolio.
Maturity - The final date upon which the principal of a security becomes due and payable.
Money market - The market in which short term debt instruments (T-Bills, discount notes, commercial paper and banker's acceptances) are issued and traded.
Nationally Recognized Statistical Rating Organization (NSRSO) - Is a credit rating agency (CRA) that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. The largest NSROs are Moody's, Standard and Poor's and Fitch.
Portfolio Re-Optimization - Refers to the process wherein investment broker(s) re-evaluate a given dedicated investment portfolio using sophisticated computer programs based on the updated program or project estimated cash flows. This is usually done to increase or protect the portfolio's overall rate of return as a result of changing liability amounts or dates, changing market or credit risk condition, or a change in investment policy restrictions, etc.
Portfolio Strategy – Determining investment practices to best achieve the investors' primary goals. Strategies may be either passive or active. Passive strategies include: <u>buy and hold</u>, which includes the laddering of maturities; and <u>bullet structure</u>, which is designed to invest to a particular date or portfolio horizon; and benchmarking, which is done to mirror a particular

segment of the market. Active strategies employ additional risk to take advantage of conditions in the fixed income markets that change as economic and financial conditions change.
Premium - The difference between the par value of a bond and the cost of the bond, when the cost is above par.
Primary Dealer - a firm that buys government securities directly from a government, with the intention of reselling them to others, thus acting as a market maker of government securities. The government may regulate the behavior and numbers of its primary dealers and impose conditions of entry.
Repurchase agreement (RP, Repo) - Short term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a **reverse repurchase agreement**.
Risk - refers to the degree of probability of incurring a monetary loss as a result of investing in a particular security. Three general kinds of investment risks are:

- *Credit Risk* - risk that an issuer of a security cannot meet its obligations.
- *Market Risk* - risk from fluctuations in the market prices for individual securities over a period of time.
- *Liquidity Risk*- risk of an inability to sell a security at its fair market value.

Safety - refers to the varying degrees and types of risks associated with different types of investment securities and individual issues. Safety is a matter of degree, not an absolute.
Safekeeping - A service to bank customers whereby securities are held by the bank (as custodian) in the customer's name.
Total rate of return - A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.
U.S. Treasury obligations - Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.
Treasury bills - All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.
Treasury notes - All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.
Treasury bonds - All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.
Uniform Net Capital Rule - An SEC rule that requires broker-dealers to maintain sufficient liquidity to protect securities customers, counterparties, and creditors. Broker-dealers must maintain net capital (net worth adjusted by certain deductions for illiquid assets and reserves against possible market losses on securities positions) such that the liabilities incurred by the broker-dealer (aggregate indebtedness) do not exceed certain specified levels.
Volatility - The rate at which security prices change with changes in general economic conditions or the general level of interest rates.
Yield to Maturity - The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.

ATTACHMENT 2
INVESTMENT FUND OBJECTIVES

Fund Type	Primary Investment Objective	Maximum Term of Investment [1]
Bond Financed Project Funds: [2]		
Construction Fund (Geo)	C	1 year
Construction Revolving Acct (LEC)	A	90 days
Debt Service Fund	C	1 year
Debt Service Reserve	B, D	15 years
Reserve Fund	B, C, D	5 years
Rebate Fund	C	5 years
O&M Reserve (LEC)	A, B, D	5 years
Revenue Fund	A, B, C	1 year
Additional Operating Funds:		
Operating Account	A, C	5 years
General Operating Reserve	A, B, C	5 years
SCPA Balancing Account	A, B	5 years
Capital Development Account (Hydro)	A, C	5 years
Decommissioning Account (Geo)	C, D	10 years

Notes:

A. Provide liquidity
B. Provide reserves against uncertain liabilities
C. Match prescribed cash flow
D. Maximize long-term return on investment

[1] Investments shall mature not later than such times as shall be necessary to provide monies when reasonably expected to be needed for payments to be made from such fund.

[2] Proceeds of debt issuance and other funds held under a bond indenture shall be invested in accordance with the Agency's general investment philosophy as set forth in this policy; however, such moneys are to be invested in accordance with permitted investment provisions of their specific bond indentures.

ATTACHMENT 3
LIST OF PERMITTED INVESTMENTS

The California Government Code (Sections 53600 et seq.) governs investment of Agency funds. The following investments are authorized:

1. **U.S. Treasury Obligations** (e.g. Treasury notes, bonds and bills) Securities that are backed by the full faith and credit of the United States

    a) There is no limit on purchase of these securities.
    b) All purchased securities must have an explicit or a de facto backing of the full faith and credit of the U.S. Government.
    c) Securities will not exceed 15 years maturity in accordance with Attachment 2 of this policy

2. **U.S. Federal Agency Obligations** – Obligations issued by the Federal Government agencies (e.g. Federal National Mortgage Association).

    a) There is no limit on purchase of these securities except for: Callable and Multi-step-up securities provided that:
        i) The potential call dates are known at the time of purchase
        ii) The interest rates at which they "step-up" are known at the time of purchase
        iii) The entire face value of the security is redeemed at the call date

    b) Securities will not exceed 15 years maturity in accordance with Attachment 2 of this policy.

3. **Municipal Bonds including California State, California Local Government Agencies, and other United States State Bonds**

    a) Having at time of investment a minimum Category A (A-/Aa3) rating as provided by a nationally recognized rating service.
    b) May not exceed 30 percent of the par value of the portfolio.
    c) Investments include:

        i) Registered state warrants or treasury notes or bonds of the State of California and bonds, notes, warrants, or other evidences of indebtedness of any local agency within California, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the state or local agency or by a department, board, agency, or authority of the state or local agency.
        ii) Registered treasury notes or bond of any of the 49 United States in addition to the State of 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 United States, in addition to the State of California.

d) Securities will not exceed 10 years maturity in accordance with Attachment 2 of this policy.

4. **Certificates of Deposit (CD) -** A debt instrument issued by a bank for a specified period of time at a specified rate of interest. Purchase of CD's are limited to:

   a) May not exceed 20 percent of the par value of the portfolio.
   b) No more than 5 percent of the par value of the portfolio in collateralized CDs in any institution.
   c) Purchase collateralized deposits only from federally insured banks that are rated by a nationally recognized rating service.
   d) For non-rated banks, deposit should be limited to amounts federally insured (FDIC).

5. **Bankers Acceptances'** – Bills of exchange or time drafts drawn on and accepted by commercial banks. Purchase of bankers' acceptances are limited to:

   a) No more than 40 percent of the par value of the portfolio.
   b) Not to exceed 180 days maturity.
   c) No more than 5 percent of the par value of the portfolio with any one institution.
   d) Having at time of investment a minimum Category A (A-/Aa3) rating as provided by a nationally recognized rating service.

6. **Commercial Paper -** Short-term unsecured obligations issued by banks, corporations, and other borrowers. Purchases of commercial paper are limited to:

   a) Having highest letter or numerical rating as provided for by a nationally recognized rating service.
   b) No more than 25 percent of the par value of the portfolio.
   c) Not to exceed 270 days maturity.

7. **Local Agency Investment Fund (LAIF)** – A State of California managed investment pool that may be used up to the maximum permitted by California State Law.

8. **California Asset Management Program (CAMP)** – A California Joint Powers Authority ("JPA") managed investment pool that may be used up to the maximum permitted by California State Law.

8. **California Cooperative Liquid Assets Securities System (California CLASS or CLASS)** – A California Joint Powers Authority ("JPA") managed investment pool that may be used up to the maximum permitted by California State Law.

9. **Repurchase Agreements (REPO)** – A contractual agreement between a seller and a buyer, usually of U.S. government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and, usually, at a stated time. The Agency may invest in repurchase agreements with banks and dealers of primary dealer status recognized by the Federal Reserve with which NCPA has entered into a master repurchase contract which specifies terms and conditions of repurchase agreements. Purchases of REPO's must:

    a) Not to exceed 1 year.
    b) Market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities.

10. **Mutual Funds and Money Market Mutual Funds** – consisting of investment vehicles permitted under Sections 53601 and 53635 of the California Government Code. To be eligible for Agency investments, mutual funds shall have the following:

    a) The highest rating provided by not less than two of the three largest NRSROs or;
    b) The fund must retain an investment advisor registered with the Securities and Exchange Commission, has assets under management in excess of $500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53636.

    To be eligible for Agency investments, money market mutual funds shall have the following:

    a) The highest rating provided by not less than two of the three largest NRSROs or;
    b) The fund must retain an investment advisor registered with the Securities and Exchange Commission and who has not less than five years' experience investing in money market instruments with assets under management in excess of $500 million.

    A thorough analysis of the portfolio is required prior to investing, and on a continual basis. Analysis shall include creditworthiness, size, safety, ease of investment liquidation, frequency of earnings distributions, frequency of account statements, and investment portfolio strategy. Securities owned in mutual funds and investment pools will not count towards maximum percentages of other categories.

    a) Maximum Holdings = 20% of portfolio dollars
    b) Maximum per Fund = 5% of portfolio dollars for mutual funds and 20% of portfolio dollars for money market mutual funds (total of all money market mutual funds not to exceed 20% of portfolio)

11. **Negotiable Certificates of Deposit (NCD)** issued by nationally or state-chartered banks and state or federal savings institutions. Purchases of negotiable certificates of deposit:

    a) May not exceed 30 percent of the par value of the portfolio.
    b) No more than 5 percent of the par value of the portfolio in any one institution.
    c) If below FDIC limit, no credit rating is required.
    d) If above FDIC limit, a minimum Category A (A-/Aa3) rating as provided by a nationally recognized rating service is required.

12. **Medium-Term Corporate Notes** – Issued by corporation organized and operating within the United States or by depository institutions licensed by the United States or any state and operating with the United States.

    a) Not to exceed 5 years maturity.
    b) Having at time of investment a minimum Category A (A-/Aa3) rating as provided by a nationally recognized rating service.
    c) No more than 30 percent of the par value of the portfolio.
    d) No more than 5 percent of the par value may be invested in securities of any single issuer, other than the U.S. Government, its agencies and instrumentality.
    e) If securities owned by the Agency are downgraded by a nationally recognized rating service to a level below A- or Aa3, it shall be the Agency's policy to review the credit situation and determine whether to sell or retain such securities in the portfolio. The Agency shall be required to include information about the downgraded investment in the monthly Treasurer's Report until such time that the investment matures or the Agency sells it.

13. **Supranational Organizations Securities** – Supranational organizations refer to the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Inter-American Development Bank (IADB).

    a) Securities will not exceed 5 years maturity.
    b) No more than 15 percent of the par value of the portfolio.
    c) No more than 5 percent of the par value with any one institution.
    d) Securities eligible for investment shall have a minimum rating of AA or Aa2 from a nationally recognized rating service.
    e) Limited to United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by IBRD, IFC, and IADB.

Attachment 1 of this Investment Policy provides a more detailed description of the investment vehicles and security and liquidity features. Most of the Agency's short-term investments will be in securities which pay principal upon maturity, while long-term investments may be in securities that periodically repay principal, as well as interest. Most of the Agency's investments will be at a fixed rate. However, some of the investments may be at a variable rate, so long as that rate changes on specified dates in predetermined increments.

ATTACHMENT 4
TABLE OF PERMITTED INVESTMENTS

Concentration limits and credit criteria apply at time of purchase. The following represent the maximum maturities for and maximum percentages or dollar amounts that may be invested in specific investment types:

Type of Investment	Maximum % of Portfolio	Minimum Rating Requirement	Maximum Maturity	Other Restrictions	Gov't Code Sections
US Treasury Obligations	100%	None	5 Years[2]	None	53601(b)
U.S. Agency Obligations	100%	None	5 Years[2]	None	53601(f)
Local Agency Investment Fund (LAIF)	Up to max permitted by Code	None	N/A	None	16429.1
Medium-term Corporate Notes	30%	By a NRSRO; Category A or its equivalent or better*	5 years	No more than 5% per issuer	53601(k)
California Asset Management Program (CAMP)	100%	None	N/A	Must retain SEC registered advisor[3]	53601(p)
California Cooperative Liquid Assets Securities System (California CLASS or CLASS)	100%	None	N/A	Must retain SEC registered advisor[3]	53601(p)
(Non-negotiable Certificates of Deposit)	20%	None	5 years	No more than 5% per issuer	53630 et seq.
Negotiable Certificates of Deposit	30%	No rating for amount < FDIC insured level; by a NRSRO; Category A for amounts > than FDIC insured level	5 years	No more than 5% per issuer	53601(i)
Bankers' Acceptances	40%	By a NRSRO; Long-term of Category A or short-term of A-1 or better	180 days	No more than 5% per issuer	53601(g)
Commercial Paper	25%	By a NRSRO; Highest letter and number rating	270 days	Assets >$500MM No more than 5% per issuer	53601(h)(2)(c)
Mutual Funds and Money Market Mutual Funds	20%	By a NRSRO; Highest rating by minimum of two or retain SEC registered advisor[4]	5 years	No more than 5% per mutual fund; 20% per money market mutual fund[4]	53601(l) and 53601.6(b)
Repurchase Agreements	100%	None	1 year	Collateral of at least 102% of market value required	53601(j)
Municipal Bonds[1]	30%	By a NRSRO; Category A or its equivalent or better	5 Years[2]	No more than 5% per issuer	53601(a)(c)(d)(e)
Supranational Obligations	15%	"AA" rating category or its equivalent or better	5 Years	No more than 5% per issuer	53601(q)

- Includes any rating modifiers such as "+"/"-" or numbers to include equivalent ratings from NRSRO

[1] An investment in a municipal bond may include a bond or other debt security of the Agency's local agency members; provided, absent an opinion of nationally recognized bond counsel that the exclusion from gross income of interest on the municipal bond will not be adversely affected for federal income tax purposes, the following criteria are met:

a. The municipal bond has not been issued by or on behalf of Agency; and
b. Any local agency members who are either the issuer of the municipal bond or are beneficiaries (e.g., a conduit borrower) of the proceeds of the municipal bond do not have greater than forty-nine percent voting power with respect to any action of Agency.

[2] The Maximum Maturity for U.S. Treasury and Federal Agency obligations and Municipal Bonds is five years for all funds with the exception of the following:

a. Debt Service Reserve funds in accordance with respective bond covenants restrictions and Attachment 2 of this policy.
b. The Geo Decommissioning Fund in accordance with Attachment 2 of this policy.

[3] The investment advisor must be registered with the SEC (or is exempt from registration), have assets under management in excess of $500 million, and have at least five years' experience investing in instruments authorized by California Government Code Section 53601 subdivisions (a) to (o).

[4] Mutual Funds and Money Market Mutual Funds

a. For the mutual fund, if an investment advisor is required, the advisor must be registered with the SEC, have assets under management in excess of $500 million, and have at least five years' experience investing in instruments authorized by California Government Code Sections 53601 and 53636.
b. For the money market mutual fund, if an investment advisor is required, the advisor must be registered with the SEC. and have not less than five years' experience investing in money market instruments with assets under management in excess of $500 million.

ATTACHMENT 5
BROKER/DEALER QUESTIONNAIRE

NORTHERN CALIFORNIA POWER AGENCY
BROKER/DEALER QUESTIONNAIRE

Firm Name: _____

CRD Number: _____

Office servicing account: _____

Address: _____

Primary Representative:
Please attach bio of primary and secondary representatives covering this account.

Telephone: _____

Fax: _____

E-Mail: _____

CRD Number: _____

Secondary Representative or sales assistant: _____

Telephone: _____

E-Mail: _____

CRD Number: _____

Branch Manager: _____

Telephone: _____

Is your firm designated as a primary dealer by the Federal Reserve?* _____

If not, does your firm maintain an inventory? (dealer status)* _____

Is the firm registered with the State of_____State Securities Board?* _____

Is the firm and all its representatives registered with the NASD?* _____

In what market sectors does the account representative specialize?_____

_____

List three comparable public clients currently working with this representative.
Entity name, contact and phone number.

_____

_____

_____

*If the answer to any of these questions is no, please explain each separately.

Attach complete delivery instructions.
All transactions will be completed delivery versus payment.

ATTACHMENT 5
BROKER/DEALER QUESTIONNAIRE

NCPA
A PUBLIC AGENCY
NORTHERN CALIFORNIA POWER AGENCY

BROKER/DEALER QUESTIONNAIRE

Page 2 to be completed by non-primary broker/dealers only.

Firm Name:_____CRD #: _____

Years in business at this location:_____ Total years: _____

What are the market sectors in which you and your firm are involved? Please feel free to provide additional information regarding specialization in any of the following market sectors.

	Firm Involvement	Broker Involvement
US Treasuries	_____	_____
US Agencies	_____	_____
Repo MBS	_____	_____
CP BA	_____	_____
Corporate CD	_____	_____
Other		

Has this firm, or the representatives assigned to this account, been subject to a regulatory agency, state or federal investigation for alleged improper, disreputable, unfair or fraudulent activities related to the sale of securities or money market instruments that resulted in a suspension or censure? Is there outstanding litigation that would materially affect the firm's financial stability?

_____

_____

_____

Do you provide any fixed income research and economic commentary?_____
Please attach sample.

What portfolio information to you require from your clients?_____

_____

Please provide the firm's most recent audited financial statement.
(The City will require an annual financial statement be provided.)

Describe the precautions taken by your firm to protect the interests of the public when dealing with a public entity.

_____

_____

_____

Attached is our Investment Policy. The representatives assigned to the account must acknowledge that they have received, read and understood the Policy, dated_____by signing below.

_____	_____
Signature	Name and Title
_____	_____
Signature	Name and Title

ATTACHMENT 6
TABLE OF BOND INDENTURE PERMITTED INVESTMENTS

Project	Geo/Hydro [2]			Cap Facilities/LEC [3]		
Securities [1]	Debt Service Acct.	Debt Service Reserve Acct.	All Other	Debt Service Acct.	Debt Service Reserve Acct.	All Other
Direct obligations of the United Stated of America.	x	x	x	x	x	x
Bonds issued or guaranteed by federal Agencies, which are backed by the full faith and credit of the United States of America.	x	x	x	x	x	x
Bonds issued or guaranteed by federal Agencies, which are not backed by the full faith and credit of the United States of America.	x	x	x	x	x	x
New Housing Authority bonds or notes of public agencies or municipalities secured by a pledge of annual contributions to be paid by the United States or agency thereof.	x	x	x			x
Direct and general obligations of the State of California or political subdivision rated A or higher.	x		x			
General obligation of any state rated A2 or higher.						x
Time deposits, FDIC insured or collateralized.			x			x
Repurchase agreements, insured or collateralized.			x			x
Money Market Funds rated AAAm G or AAAM or better.						x
Commercial Paper rated P-1 or A1+.						x
UD dollar denominated deposit accounts, federal funds or bankers' acceptances with ratings of A-1, A-1+ or P-1.						x
Prefunded municipal obligations rated highest rating category by S&P or Moody's, based on an irrevocable escrow.						x
Investment Agreements & GICS, supported by opinion of counsel.				x	x	x
California LAIF.						x
Shares in a California common law trust which invests exclusively in investment permitted under CA Code section 56635.						x
Any other form of investment.						x

[1] Investment types are detailed in each project bond Indenture of Trust. Generally, investment securities include those listed above, if and to the extent the same are legal for investment of Agency funds. The securities, as listed above, are summarized and may have additional limitations as to specific issuers, ratings, term of investment, or other requirements.

[2] The Geothermal Project bond indenture dated November 1, 1983 and the Hydroelectric Project bond indenture dated March 1, 1985 have the same definition for investment securities.

[3] The Capital Facilities Project bond indenture dated December 1, 2019, the Lodi Energy Center Issues One and Two, dated June 1, 2010 have the same definition for investment securities.

ATTACHMENT 7
CREDIT RATINGS COMPARISON

Description	Moody's		Standard & Poors		Fitch	
	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term
Prime:						
Extremely Strong	Aaa		AAA		AAA	
High Grade:						
Very Strong	Aa1		AA+	A-1+	AA+	F1+
	Aa2	P-1	AA		AA	
	Aa3		AA-		AA-	
Upper Medium Grade:						
Strong	A1		A+	A-1	A+	F1
	A2		A		A	
	A3		A-		A-	
Lower Medium Grade:		P-2		A-2		F2
Adequate	Baa1		BBB+		BBB+	
	Baa2	P-3	BBB	A-3	BBB	F3
	Baa3		BBB-		BBB-	
Non-investment Grade speculative:						
Vulnerable	Ba1		BB+		BB+	
	Ba2	Not Prime	BB	B	BB	B
	Ba2		BB-		BB-	

Credit ratings are opinions about credit risk published by a rating agency. They express opinions about the ability and willingness of an issuer, such as a corporation, state or city government, to meet its financial obligations in accordance with the terms of those obligations. Credit ratings are also opinions about the credit quality of an issue, such as a bond or other debt obligation, and the relative likelihood that it may default.

The Agency shall not invest in any security rated less than rating category A or its equivalent.