Description of Authorized Securities

U.S. TREASURY BILLS

Short term direct debt obligations issued by the United States Treasury and backed by the full faith and credit of the United States. Maturities are three-months and six-months auctioned weekly on Mondays, with payment due the following Thursday. 52-week Bills are auctioned every four weeks. Cash Management Bills are issued at irregular intervals with maturities ranging from a few days to about six months. Bills offer the Investment Division (referred herein as "Investor") extreme safety and liquidity. Because of this, the Treasury Bill market is often a haven for cash when national and international nervousness occurs. This may be anything from rumored strains in the banking industry to the political situation in the Middle East. Independence of action and constant economic monitoring and geopolitical evaluation are necessary to avoid market risks resulting in unwanted losing Bill positions.

U.S. TREASURY STRIPS

Originally issued by the United States Treasury in complete form as principal and interest obligations. Strips or Zero's as they are often referred, are the result of separating the interest obligation from the principal and trading the body of the bond and the individual coupon obligations as separate securities. It is the investor's responsibility to recognize the corpus or the coupon, the availability of book-entry or definitive form (physical), and the spreads that result from these characteristics. An uninformed investor may end up buying a physical corpus at a rate reflecting a book-entry coupon, since these securities appear to be generic in description. Not only is the investor buying a Volkswagen at Cadillac prices, but he will also create a failed transaction when and if he decides to trade the item in the open market.

TREASURY SECURITIES

Direct obligations of the United States Government issued by the Treasury by auction process. The issues include, but are not limited to, two-year notes, three-year notes, five-year notes, ten-year notes, and thirty-year bonds. These auctions occur monthly, mid-quarterly, and quarterly. It is the investor's responsibility to monitor auction announcements, size of the auction, new money, amount of paydowns, domestic interest, foreign interest, domestic retail interest, and potential trading range of the issue in the post-auction market. Lack of attention and improper evaluation can result in the loss of optimum investment return.

SECURITIES OF GOVERNMENT-SPONSORED ENTERPRISES, FEDERAL AND OTHER AGENCIES, AND INTERNATIONAL INSTITUTIONS

Like Treasury obligations, these securities generally are issued under the authority of an act of Congress. A few are backed by the full faith and credit of the United States, many are guaranteed by the Treasury or supported by the issuing agency's right to borrow from the Treasury, but some lack any formal governmental backing. Some of the issuing entities are publicly owned; others are wholly governmental. Following is a list of various obligations authorized by statute; Farm Credit System, including Banks for Coops, Federal Intermediate Credit Banks, Federal Land Banks, Farm Credit Consolidated System-wide Discount Notes, Federal Farm Credit Banks Consolidated Systemwide Bonds, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Discount Notes and Debentures, Federal National Mortgage Association, Student Loan Marketing Association, United States Postal Service, FHA Debenture obligations, Government National Mortgage Association, Export-Import Bank of the United States, Farmers Home Administration, Maritime Administration, Small Business Administration, Tennessee Valley Authority, Asian Development Bank, Commodity Credit Corporation (CCC), Inter-

American Development Bank, and International Bank for Reconstruction and Development (World Bank). It is the investor's responsibility to monitor value for spreading these agencies one to the other, to evaluate the credit worthiness of those non-government guaranteed programs, and to be informed of the financing calendar of all agency issues. The extensive list of eligible agencies herein mentioned is testimony to the research and analysis necessary to maintain a risk-free agency portfolio reflecting the optimum return.

CERTIFICATES OF DEPOSIT

Negotiable certificates in denominations of $100,000.00 or more. They are issued by commercial banks and thrift institutions against funds deposited for specified periods of seven days or longer and earn specific rates of interest. Major banks and thrifts also issue variable rate CD's with maturities of up to five years. The rate, which is adjusted every 30, 90, or 180 days, usually includes a fixed premium over the composite secondary market rate for major bank CD's, as compiled and published by the Federal Reserve Bank of New York. Also included in this authority is the Yankee CD. Yankee CD's are U.S. dollar-denominated CD's issued by foreign banks domiciled in the United States. Canadian, French, British, German, Japanese, Swiss, and Australian, Dutch banks are active participants. It is the investor's responsibility to maintain a credit watch on global, as well as a domestic level. Considerations such as political stability, governmental control of the industry (energy loans, agricultural loans, commercial real estate loans, etc.), loan exposure to troubled countries (LDC's), and net worth and capitalization. In addition to assessing the relative value of one bank to another, the relative value to CD's in general against the value of other investment items must be considered. When considering variable or floating rate CD's, the investor must determine the coupon reset duration as well as the original spread from the posted composite based on his expectation of future rate direction. If the investor assumes that interest rates will fall shortly, he would opt for a long rate reset period. If this assumption is incorrect, the Pool is invested at a present rate for an extended period of time, while other comparable rates rise. The security then is not earning an optimum return, and indeed could result in a loss, if the need to liquidate should arise. It should be noted that the domestic banks and thrift institutions are able to guarantee $250,000.00 on each deposit through the Federal Depositor Insurance Corporation and the Savings Association Insurance Fund, and that there is no such guarantee on Yankee CD's. This is a minimal guarantee, considering that many millions are invested in these instruments. Although banks and thrifts have either closed or been directed to merge for credit purposes in the past, the Pool has not experienced any lost revenues due to default or delayed payments of maturing items. This is directly attributed to the investor's research, analysis, evaluation, and forecasting abilities when reviewing the stability of the banking and thrift industries.

BANKER'S ACCEPTANCES

A unique credit instrument used to finance both domestic and international self-liquidating transactions. By definition, it is a draft or bill of exchange, whether payable in the United States or abroad and whether payable in dollars or some other currency, accepted by a bank or trust company, or corporation engaged generally in the business of granting bankers' acceptance credits. Consider a coffee processor in the United States who wishes to finance the importation of Colombian coffee on an acceptance basis. The American importer, after negotiating with the Colombian exporter, arranges for his American commercial bank to issue an irrevocable letter of credit in favor of the exporter. The letter of credit specifies the details of the shipment and states that the Colombian exporter may draw a time draft for a certain amount on the American bank. The Colombian exporter draws a draft on the American bank and negotiates the draft with his local bank, receiving immediate payment. The Columbian bank then forwards the draft to the United States for presentation to the bank that issued the letter of credit. This bank stamps the draft "Accepted", thus incurring an obligation to pay the draft at maturity. The importer is then able to process and sell the coffee. The importer is obligated to deposit the proceeds of the coffee sales at the accepting bank in time to honor the acceptance. At maturity, the acceptance is presented for payment by its owner, and the transaction is completed. The investor currently has legislated authority to deal in both domestic and foreign acceptances. In addition to domestic banks, Japanese, French, English, Mexican, German, Dutch, Swiss, Australian, and Canadian banks are now active, to varying degrees, in the foreign acceptance market. The investor's responsibilities concerning bankers' acceptances, both foreign and domestic, are parallel to those responsibilities involved with trading CD's. However, one major difference concerning default should be considered. The risk of CD default jeopardizes the principal invested. In the case of an acceptance default, not only is the principal at risk, but also the investor must be prepared to take possession, process, and sell the shipment involved in the import-export transaction.

REPURCHASE AGREEMENTS

A Repurchase Agreement consists of two simultaneous transactions. One is the purchase of securities by an investor from a bank or dealer. The other is the commitment by the bank or dealer to repurchase the securities at the same price at some mutually agreed future date. The investor's responsibilities are compounded in this type of transaction. Not only must the investor evaluate and analyze the collateral used for credit-worthiness and marketability, he must also evaluate and analyze the bank or dealer with whom the agreement was made. A default by the bank or dealer to complete the dual transaction will result in the forfeiture of the collateral. It is imperative to accept quality securities and to monitor their value to avoid under collateralization in the event of default. Knowledge of the dealer community in general and the stability of the participating bank or dealer in particular are major responsibilities of the investor.

AGENCY DISCOUNT NOTES

Unsecured general obligations of the issuing agency with maturities ranging from 1 day to 360 days. This portfolio serves as a tandem or alternative trading portfolio to the Treasury bill portfolio. As with the agencies mentioned earlier, credit worthiness, amount outstanding and new issues available are to be considered when evaluating a trade in Discount Notes, as well as understanding the relative value of one issue to the other. A determination also must be made based on market monitoring and spread analysis as to the optimum moment to swap between the Bill and Discount Note portfolios.

TIME DEPOSITS

Time Deposits are interest-bearing deposits with specific maturities negotiated with California banks, savings and loans and credit unions. These deposits are secured by collateral pledged by the financial institution and in compliance with the Government Code. Appropriate collateralization levels are monitored on a regular basis. In addition, financial institutions are evaluated for credit criteria.

MORTGAGES

FHLMC PC, FHLMC GMC, GNMA PC are mortgage participation certificates representing undivided interests in conventional or FHA/VA mortgages underwritten and previously purchased by FHLMC. FHLMC passes through to each certificate holder every month a pro rata share of the principal and interest payments collected on the mortgages in the underlying pool, including pre-payments. FHLMC GMCs represent undivided interest in conventional residential mortgages previously underwritten and purchased by FHLMC. GMCs pay principal annually in guaranteed minimum amounts and interest semi-annually. There are many considerations when dealing in the mortgage markets. Since paydowns may vary, resulting in maturities that are hard to determine, portfolio accountability must be analyzed. Fast-paying premium bonds would result in a lower return, since the principal would paydown at a rate faster than the amortization of premium. Fast-paying discount bonds, in contrast, would enhance the return. The rate of paydown has a direct relationship with the prevailing interest rate environment. It is the duty of the investor to evaluate the economy and form a sound and correct scenario to avoid detrimental returns. Apart from portfolio impact, there are a variety of concerns to address when dealing in the mortgage market. Geographic location of the Mortgages included in the pool also serves to determine the paydown rate. It has been established that certain areas of the country are more transitory, resulting in more frequent sales and resales of single family housing. This information, when used in tandem with coupon rate information will not only avoid a detrimental portfolio impact, but will enhance the performance of the mortgage holdings.

CORPORATE BONDS

Secured and unsecured medium term debt issued by privately or publicly held banks, holding companies, corporations, or institutions for the purpose of increasing capital, plant and equipment purchase, re-tooling, or other related expenditures. Currently, there are more than thirty authorized names available for investment consideration. It is the investor's responsibility to direct the research and analysis essential to corporate trading. Since most issues purchased are unsecured debt, expert credit analysis is of utmost importance. Also necessary is the ability to customize, or "create from scratch", a note or bond with unique characteristics whose sole purpose is portfolio yield enhancement. This custom debt instrument, generally a corporate issue, is known as a private placement, and often involves the Investor in negotiations with Chief Executive Officers, Chief Financial Officers, and General Counsel. Often these negotiations cover several weeks, and require a specific knowledge of legal requirements and securities regulations. Past trades have been announced nationally in the Wall Street Journal. Since most corporate issues are medium to long term, five years to fifteen years, the weighted impact on a portfolio with an average life of less than two years can be significant. It is essential for the investor to make a complete credit analysis, to conduct earnest negotiations, and to tie them all to a pre-formulated economic scenario compatible with current portfolio needs and cash availability.

COMMERCIAL PAPER

The market name for the short-term unsecured promissory notes issued by various economic entities in the open market to finance certain short-term credit needs. In addition to providing a source of seasonal working capital, commercial paper is increasingly being used as a means of interim financing of major construction projects such as bank buildings, ships, pipelines, nuclear fuel cores, and plant expansion. Presently, approximately 100 entities are eligible investments for the Pooled portfolio. These represent a variety of industrial companies, utilities, commercial bank holding companies, finance companies, insurance companies, and savings and loan associations.

The investor's responsibility is basically the same as that of corporate bonds, since commercial paper is essentially a short-term corporate bond with a maturity of 1 day to 270 days. However, commercial paper is the only authorized investment with restrictions pertaining to the amount eligible for investments. Since no more than 10% of any one issuer's outstanding may be held by the Pool, the investor must maintain a working knowledge of the issuing status of all eligible entities. He must also keep in mind the ratings of each issuer and how each issuer trades in relation to another, as well as the relative value spread to other investment vehicles.

REVERSE REPURCHASES

Reverse Repurchase Agreements, technically called matched sales-purchase agreements, are essentially the mirror image of RPs. In this instance, the investor is the owner of the collateral, and the bank or dealer is the lender of money. All other aspects remain identical. Again, the investor's responsibilities are two-fold, as the creditworthiness of the bank or dealer is still an essential consideration. Additionally, the investor now must arbitrage or re-invest the money received on the transaction into another security for a positive return. The new investment must be secure from default, yet of lesser quality to create a spread. Furthermore, the new investment must mature coincidentally with the Reverse

Transaction, or a cash shortage may occur. If the maturity is staggered from the Reverse transaction, the investor must now address the mismatch as it applies to the now-altered cash forecast.

SECURITY LOANS

Portfolio issues are loaned to authorized banks or dealers for a pre-arranged fee. In turn, securities representing at least 102% of the market value of the issues loaned are received as collateral for the loan. As long as maintenance is continued on the collateral side, the risk is minimal. A similar program is put out on contract by the Retirement system, but this office organizes, negotiates, and maintains the loan program exclusively.

BANK NOTES

Bank Notes are senior, unsecured promissory notes issued in the United States on either an underwritten or continuously-offered basis by domestic commercial banks. The Notes represent senior debt of the bank which ranks *pari passu* with all other senior obligations of the bank, except deposit liabilities or obligations that are secured or subject to any priorities or preferences.

Bank Notes should not be confused with Medium-Term Notes (“MTNs”) or other securities issued by domestic bank holding companies (“BHCs”). Bank Notes are exempt from SEC registration under Section 3(a)(2) of the Securities Act of 1933. They are classified as “Other Borrowings” on the bank’s balance sheet, while Deposit Notes and CDs are classified a “Deposits,” Bank Notes are not deposits and are not insured by the Federal Deposit Insurance Corporation (“FDIC”) or any other insurer.

NEGOTIABLE ORDER OF WITHDRAWAL

A Negotiable Order of Withdrawal account (NOW account) is a deposit account that pays interest on which checks may be written. NOW accounts are offered by commercial banks, mutual savings banks, and savings and loan associations. They may be owned only by individuals, some nonprofit organizations, and government agencies or bodies. NOW Accounts are structured to comply with Regulation Q, which prohibits interest on checking accounts: NOW accounts are interest-bearing and checks may be written on them, but legally they are not interest-bearing checking accounts. NOW accounts are considered checkable deposits, and are counted in the Fed’s M1 definition of the money supply. As such, they are considered liabilities from the bank's perspective. For purposes of the PMIA, NOW Accounts are subject to the same requirements and restrictions followed by demand balances and time deposits.

NOTES TO MONTHLY SELECTED INVESTMENT DATA

Reverse Repurchase - The temporary sale of owned securities, with the simultaneous agreement to repurchase the same securities at a predetermined cost and rate on a specified future date.

The Pooled Money Investment Account from time to time enters into Reverse Repurchase Agreements with major pre-approved securities dealers. The intent is to earn incremental interest for pool participants. Because it is viewed as incremental, earnings derived from reverses are never projected or anticipated.

All reverses are in compliance with Government Code Sec. 16480.4, and are further discussed in the Treasurer's Statement of Investment Policies, Goals and Objectives.

AB 55 Loans - Named for Assembly Bill 55, these loans are made from the Pool to state agencies which have pre-approved authority to issue bonds for specific projects. The AB 55 loan program allows an agency to borrow money for up-front and progress expenses when funding a specific project. Toward the end of the project construction, the already approved bond issue is brought to market, the proceeds of which are used to pay off principal and interest due on the AB 55 loan. This method eliminates the need for an arbitrage tracking system, had the bonds been sold "up front." The maximum term for AB 55 loans is 364 days, with many retired earlier.

General Fund Loans - Loans made by the Pool to the General Fund in anticipation of evening out cash flow. The average life of these loans is well below 30 days. Unlike the on-going AB 55 loan program, General Fund loans are much more infrequently requested.

Both AB 55 and General Fund Loans have the following characteristics:

1. Amount available for loans is determined by the State Controller and EXCLUDES certain trust monies, such as LAIF balances;
2. LAIF participants do share in the interest income paid to the Pool on each loan balance;
3. The decision to approve these loans rests in the authority of the Pooled Money Investment Board;
4. A predetermined maximum total loan balance is capped as a specific percentage of identified borrowable resources as determined by the State Controller.
5. No surplus monies may be loaned if such a loan would inhibit carrying out the purpose for which the monies were originally designated.
6. Since the granting of these loans is not an investment function, the loans (AB 55, GF) are not included in records of daily investment activity.
7. Since interest is commingled with other investment revenue, both AB 55 and General Fund loans are included in Selected Data Reports and portfolio accountability.
8. The total monies in AB 55 and General Fund loans are figured into the Portfolio book value when reporting portfolio size and yield.

Revised August 1, 2016