

# **SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT INVESTMENT POLICY**

## **SECTION I: INVESTMENT OBJECTIVES**

The Chief Financial Officer or designee of the District shall invest District funds in accordance with this Investment Policy and applicable law, applying the Prudent Investor Standard in the context of the overall portfolio and in accordance with the following objectives, in order of priority:

1. **Safety** – The investment portfolio should be structured to minimize the probability of a loss of principal value through adequate diversification of investments across a variety of security offerings, maturities, and financial institutions.
2. **Liquidity** - The investment portfolio will remain sufficiently liquid to meet the District's reasonably anticipated cash flow requirements. Furthermore, since all possible cash demands cannot be anticipated, the investment portfolio should consist largely of securities with active secondary or resale markets.
3. **Yield** – The investment portfolio will be managed to attain a market rate of return throughout budgetary and economic cycles, commensurate with the District's risk parameters and cash-flow needs, and without undue compromise of Safety or Liquidity.

The priorities evidenced above are consistent with California Government Code Sections 53600.3 and 53600.5.

The District's Investment Policy shall also discourage the investment of funds in any institution or business which conducts operations or invests funds in any country whose laws discriminate against individuals based upon race, color, or creed.

Where District funds are governed by a trust agreement, bond indenture, tax certificate, or similar governing document, the provisions of such documents shall control the investment of those funds.

## **SECTION II: SCOPE**

This policy covers all funds and investment activities under the direct authority of the District, as set forth in the California Government Code Sections 53600 et seq. and the California Public Utilities Code Sections 29100–29103. Should the provisions of respective Codes become more restrictive than those contained herein, such provisions will be considered as immediately incorporated into this Investment Policy.

## **POOLING OF FUNDS:**

Except for cash in certain restricted and special funds, the District will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regards to investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

These funds are accounted for in the District's Annual Comprehensive Financial Report and include, but are not limited to:

1. General Fund
2. Debt Service Funds
3. Capital Project Funds
4. Agency or Fiduciary Funds

At the time this policy is adopted, the investment portfolio may hold investments which were made in the past and in accordance with previous policies and existing State law, but do not meet the provisions of this policy. These past investments are grandfathered as permissible investments. The District may choose to hold these investments until maturity; however, their maturity cannot be extended without the expressed authorization of the District Board.

**Funds excluded from this policy:**

1. Bond Proceeds: Proceeds of debt issuance shall be invested in accordance with the District's general investment philosophy as set forth in this policy. The overriding policy for the investment of bond proceeds will be dictated by the bond documents governing such funds as long as the documents are approved by the District Board or related governing board.
2. Deferred Compensation Plans: Investments related to the District's deferred compensation plans are not subject to this policy since third-party administrators manage them and the individual plan participant's direct investment and mutual fund selection. The District Board must approve deferred compensation plans.
3. Retiree Health Benefit Trust (RHBT) plan: Funds deposited into RHBT plans on behalf of employees are managed under a separate Investment Policy and are held and managed by a third-party fund manager.
4. Employee Survivor Benefits Trust (ESBT): Funds deposited into ESBT plans on behalf of employees are managed under a separate Investment Policy and are held and managed by a third-party fund manager.
5. Section 115 Pension Liability Trust (PLT): Funds deposited into PLT are managed under a separate Investment Policy and are held and managed by a third-party fund manager.
6. Any other funds specifically exempted by the District Board.

**SECTION III: DELEGATION OF AUTHORITY**

The Chief Financial Officer or Designee may invest in Securities authorized by the California Public Utilities Code Sections 29100 through 29103; California Government Code Sections 53601, 53601.1 and 53635 and Board Resolution 2697.

The Chief Financial Officer or Designee will establish procedures for the investment programs, which are consistent with the Investment Policy. Authorizations for investment decisions are limited to the Chief Financial Officer or designee. The Assistant General Manager, Finance or Director of Treasury may execute investment transactions in the absence of the Chief Financial Officer and may make decisions with respect to overnight investments and may implement decisions received directly from the Chief Financial Officer or designee.

**SECTION IV: ETHICS AND CONFLICT OF INTEREST**

- A. All officials, staff members and consultants involved in the investment functions are

prohibited from being "financially interested in any contract made by them in their official capacity" (Government Code Section 1090, et seq.) or from personal business activity that could conflict with the execution of the investment function, or which may impair their ability to make impartial investment decisions. Officials, staff members, and consultants, will disclose to the General Manager any financial interests with a financial institution, provider, dealer, or broker that conducts business with the District.

- B. Officials, staff members, and consultants will further disclose any personal financial positions that could be related to the District's cash and investment portfolio.
- C. All bond issue participants, including but not limited to, underwriters, bond counsel, financial advisors, brokers, and dealers will disclose any fee sharing arrangements or fee splitting to the Chief Financial Officer prior to the execution of any transactions. The providers must disclose the percentage share and approximate dollar amount share to the District prior to the execution of any transactions.
- D. All participants in the investment process are required to comply with the terms of the Political Reform Act, Fair Political Practices Commission Regulations promulgated thereunder (2 C.C.R. §§ 18110 through 18998), the District's Conflict of Interest Policy, including, without limitation, filing of Form 700, notification and recusal obligations, and California Government Code Section 1090 prohibitions.
- E. The District expressly prohibits gifts to Officers and employees, and they shall not solicit or accept gifts or favors of any value from persons or entities with which the District contracts or may reasonably be expected to contract. Gifts or favors include, but are not limited to, free or discounted meals, tickets, transportation, and accommodations.

## **SECTION V: INVESTMENT INTERNAL CONTROLS**

- A. The Chief Financial Officer or Designee implements and maintains a system of internal investment controls and segregated responsibilities of the investment function to ensure compliance with the Investment Policy and in order to prevent the following:
  - Fraud
  - Theft
  - Loss of principal
  - Loss of control over funds
  - Inaccurate reporting
  - Negligence
  - Over-reliance on a single employee for investment decisions
- B. Internal controls should include but are not limited to:
  - Segregation of duties (e.g., the purchaser of investments is different than the person recording the transaction)
  - Reconciliation of investment report and cash balances
  - Dual authorization of transactions

**SECTION VI: AUTHORIZED INVESTMENTS**

The Chief Financial Officer or designee may invest in any of the listed investment instruments in the table below:

<u>Investment Type</u>	<u>Minimum Credit Rating At Purchase</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Permitting Legislation</u>
<b>US Treasury Notes, Bonds, Bills</b>				
United States treasury notes, bonds, or bills for which the full faith and credit of the United States are pledged for the payment of principal and interest; Bonds, notes, bills, warrants or obligations issued by an agency of the United States.	NR	5 years	100%	California Government Code Section 53601(b)
<b>US (Federal) Agency Obligations</b>				
Federal agency or United States government-sponsored enterprise (GSE) 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.	NR	5 years	100% No more than 30% of the portfolio may be invested in any single Agency/GSE issuer. The maximum percent of agency callable securities in the portfolio will be 20%.	California Government Code Section 53601(f).
<b>State of California Obligations</b>				
Registered state warrants or treasury notes or bonds of the State of California including bonds payable solely out of revenues from a revenue-producing property owned, controlled or operated by the state or any department, board, agency, or authority of the state;	AA	5 years	30% / 5% of one single issuer	California Government Code Section 53601(c).
<b>All Other State Obligations</b>				
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;	AA	5 years	20% / 5% of one single issuer	California Government Code Section 53601(d).
<b>California Local Agency/ Municipal Obligations</b>				
Registered treasury notes or bonds of any local agencies within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a local agency or by a department, board, agency, or authority of local agency;	AA	5 years	20% / 5% of one single issuer	California Government Code Section 53601(e).
<b>BART Obligations</b>				
Registered treasury notes or bonds of the District, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a department, board, agency, or authority of the District;	AA	5 years	20% / 5% of one single issuer	California Government Code Section 53601(a).
<b>Non-Negotiable Certificates of Deposits</b>				
Public time deposits in financial institutions having at least one branch within the District boundaries and will require 110% collateralization, less the portion authorized by California Government Code Section 53653 on public time deposits, except for San Francisco Federal Home Loan Bank Letters of Credit, in which case the required collateralization will be 105%.The Chief Financial Officer or designee has the authority to waive the required collateralization and substitute Federal Deposit Insurance Corporation (FDIC) for the first \$250,000 of the investment. The Chief Financial Officer will continue to seek minority depository institutions, as defined by the Federal Government, for the placement of a portion of the District's funds.	NR	5 years	20%	California Government Code Section 53630 (a) through (p) excluding subsection (m) promissory notes secured by first mortgages and first trust deeds.
<b>Supranationals</b>				
Only those in United States dollar denominated unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less.	AA	5 years	30%	California Government Code Section 53601(q)
<b>Medium Term Corporate Notes</b>				
Corporate bonds, Corporate Notes and Deposit Notes. Issuers are banks and bank holding companies, thrifts, finance companies insurance companies and industrial corporations and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. These debt obligations are generally unsecured.	A	5 years	30%; no more than 10% in any single issuer	California Government Code Section 53601(k)
<b>Commercial Paper-Non-Pooled Funds</b>				
A short term unsecured promissory notes issued by financial and non-financial companies to raise short term cash. Financial companies issue commercial paper to support their consumer and/or business lending; non-financial companies issue for operating funds	Highest letter and number rating by an NRSRO A or A-1	270 Days	20%	California Government Code Section 53601(h)(2)(c)
<b>Repurchase Agreement</b>				
Repurchase agreements and will accept as collateral only securities of the U.S. government and U.S. governmental agencies which have a market value, including accrued interest, equal to the amount of the repurchase agreement	NR	365 Days	20%	California Government Code Section 53601(j)

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<p><b>Money-Market Mutual Funds</b>                      The money market mutual funds in which their portfolio must consist entirely of direct obligations of the U. S. Government, its agencies, or instrumentalities eligible, and repurchase agreements backed by such obligations. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S. C. Sec. 80a-1, et seq.), and have an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of \$500 million.</p>	<p>A money market mutual fund must receive the highest ranking by not less than two NRSROs or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of \$500 million.</p>	<p>N/A</p>	<p>20%</p>	<p>California Government Code Section 53601(l) and 53601.6(b)</p>
<p><b>Local Agency Investment Fund (LAIF)</b>                      The State of California Local Agency Investment Fund as authorized by California Government Code Sections 16429.1, 2, 3 &amp; 4. LAIF's investments in instruments prohibited by or not specified in the District's policy do not exclude the investment in LAIF itself from the District's list of allowable investments, provided LAIF's reports allow the Treasurer to adequately judge the risk inherent in LAIF's portfolio.</p>	<p>NR</p>	<p>N/A</p>	<p>Deposits subject to the State Treasurer's account limit (as published; currently \$75 million, subject to change)/20% of Portfolio</p>	<p>California Government Code Section 16429.1</p>
<p><b>County Pooled Investment Funds</b>                      An Investment Pool of cash reserves for County agencies, school districts and special districts. The Investment Pool is invested in fixed income securities that are legally permitted by California Government Code.</p>	<p>NR</p>	<p>N/A</p>	<p>NONE / 20% of Portfolio</p>	<p>California Government Code Section 27133; Subject to approval of County</p>

## **INVESTMENT POOLS/MONEY MARKET MUTUAL FUNDS**

The District must conduct a thorough investigation of any investment pool or money market mutual fund before making an investment, and on a continual basis thereafter. The Chief Financial Officer or Designee must complete a questionnaire which will answer the following general questions:

- A description of eligible investment securities, and a written statement of Investment Policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, and what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

## **PROHIBITED INVESTMENT VEHICLES AND PRACTICES**

California law notwithstanding, any investments not specifically described in this policy are prohibited including, without limitation, financial or commodity futures and options.

- In accordance with California Government Code Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
- Investment in any security that could result in a zero-interest accrual if held to maturity is prohibited. Under a provision sunseting on January 1, 2026, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted.
- Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
- Purchasing or selling securities on margin is prohibited.
- The purchase of foreign currency denominated securities is prohibited.
- Purchasing Private Placement Securities.
- The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is prohibited.

### Selling Securities Prior To Maturity

When selling securities prior to maturity, principal losses are only allowable either: (i) if the sale of securities is necessary to meet payment obligations; (ii) to comply with this policy, while considering the impact of the sale(s); or (iii) if the proposed sale is to be made in conjunction with a purchase and the proposed sale in combination with the subsequent purchase can enhance the investment portfolio's yield.

## **SECTION VII. MAXIMUM MATURITY**

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The District will not invest in securities maturing more than five (5) years from the date of trade settlement, unless the District Board has by resolution granted authority to make such an investment either specifically or as a part of an investment program it has approved no less than three months prior to the investment or is otherwise stated in this policy.

## **SECTION VIII: COLLATERIZATION**

Collateralization of Bank Deposits- This is the process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing repayment of deposited funds. The District shall require any bank or financial institution to comply with the collateralization criteria defined in California Government Code Section 53651.

Certificates of Deposit (CDs)- The District shall require any commercial bank or savings and loan association to deposit eligible securities with an agency of a depository approved by the State Banking Department to secure any uninsured portion of a Non-Negotiable Certificate of Deposit. The value of eligible securities as defined pursuant to California Government Code Section 53651, pledged against a Certificate of Deposit shall be equal to 150% of the face value of the CD if the securities are classified as mortgages and 110% of the face value of the CD for all other classes of security.

## **SECTION IX: AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

If a third-party Investment Advisor is authorized to conduct investment transactions on the District's behalf, the Investment Advisor may use its own list of approved broker/dealers and financial institutions for investment purposes. The Investment Advisor's approved list must be made available to District upon request. The District may instruct the Advisor not to use a particular broker for the investment of District funds.

For any investment transactions conducted by the Chief Financial Officer or Designee on behalf of the District, the Chief Financial Officer or Designee shall comply with the following requirements.

Investments not purchased directly from the issuer will be purchased from:

- Institutions licensed by the State of California as broker-dealers
- Member of a federally regulated securities exchange
- Federal or California state-chartered banks or savings institutions
- Brokerage firms designated as a primary government dealer by the Federal Reserve bank

Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the FDIC, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law. Prior to providing investment services to the District, and annually thereafter, each financial institution shall acknowledge in writing that it has received a copy of the District's Investment Policy and that the policy has been reviewed by all persons handling the District's account. All authorized financial institutions

will be required to annually submit audited financial statements to the Chief Financial Officer or Designee within three (3) months of completion. The Chief Financial Officer or Designee shall maintain a list of established dealers, brokers, banks, and savings and loan associations with which securities trading and placement of funds are authorized. Dealers and brokers shall be regulated by the Securities and Exchange Commission (SEC) and be members in good standing in the Financial Industry Regulatory Authority (FINRA).

## **SECTION X: SAFEKEEPING, CUSTODY, AND COMPETITIVE BIDS**

All security transactions entered into by the District shall be conducted on a delivery-versus-payment (DVP) basis. All securities owned by the District shall be delivered to the District by book entry, physical delivery, or a third-party custodial agreement. Securities held by a third-party custodian will be evidenced by safekeeping receipts that establish the District's ownership. The District's deposits with the State of California Local Agency Investment Fund (LAIF), money market mutual funds, and county investment pools will be evidenced by the standard reporting requirements of those entities.

All investment transactions shall be conducted on a competitive basis with quotes from a minimum of three brokers or financial institutions when possible.

## **SECTION XI: RISK MANAGEMENT AND DIVERSIFICATION**

### 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 District will mitigate credit risk by adopting the following strategies:

- The diversification requirements included in the "Authorized Investments" section of this policy are designed to mitigate credit risk in the portfolio.
- No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy, with the exception of the Federal Government and securities wherein the Federal Government is providing a full faith and credit guarantee.
- The District may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity, or yield of the portfolio in response to market conditions or District's risk preferences.
- If the credit ratings of any security owned by the District are downgraded to a level below the quality required by this Investment Policy, making the security ineligible for additional purchases, the following steps will be taken:
  - If the District employs a professional investment manager, any actions taken related to the downgrade by the investment manager will be communicated to the Chief Financial Officer or Designee in a timely manner.
  - If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported quarterly to the Board of Directors.

### Mitigating Market Risk in the Portfolio:

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The District recognizes that, over time, longer-term portfolios have the potential

to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The District further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments.

The District will mitigate market risk by adopting the following strategies:

- 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 District will maintain a target of at least the amount of its Operating Reserve plus its General Reserve for Economic Uncertainty in short term investments to provide sufficient liquidity for expected disbursements.
  - The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.

## **SECTION XII: REPORTING & ANNUAL REVIEW**

The Chief Financial Officer or Designee shall report on the investments covered under this policy at least quarterly to the Board within 45 days after the end of the quarter. The Chief Financial Officer or Designee shall submit to the Board of Directors a quarterly report containing a complete description of the District's investment portfolio, including:

- Portfolio holdings by the types of investments and Issuer;
- Maturity date of investments;
- Par, book, and current market values for current quarter and previous quarter;
- Portfolios weighted average days to maturity (WAM);
- Portfolios weighted average yield to maturity;
- Percentage of the portfolio represented by each investment category;
- Portfolios rate of return on investments;
- Total quarterly Interest earned;
- Total quarterly Interest received;
- A quarterly gain or loss report for the portfolio;
- A report on the sale or disposition of securities in the portfolio

In addition, the report shall include a statement regarding the portfolio's compliance with the District's Investment Policy and a statement regarding the District's ability to meet expenditure requirements over the next six months.

The foregoing defines the District's investment policies for calendar year 2026 and thereafter unless and until the policies are modified by the Chief Financial Officer and approved by the Board. The Chief Financial Officer shall review this policy annually and submit modifications to the Board when needed.

## **GLOSSARY OF INVESTMENT TERMS**

**AGENCIES.** Shorthand market terminology for any obligation issued by a government-sponsored entity (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.

**GNMA.** The Government National Mortgage Association, known as "Ginnie Mae," issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

**TVA.** The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

**ASSET BACKED SECURITIES.** Securities supported by pools of installment loans or leases or by pools of revolving lines of credit. **AVERAGE LIFE.** In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

**BANKER'S ACCEPTANCE.** A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

**BART AGENCY FUNDS:** funds held by one government agency on behalf of another government agency or entity. They are a type of fiduciary fund used in governmental accounting to account for assets held for another entity, typically a non-governmental entity or another government.

**BENCHMARK.** A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific Investment Policy.

**BROKER.** A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

**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, the

issuer will likely call its current securities and reissue them at a lower rate of interest.

**CERTIFICATE OF DEPOSIT (CD).** A time deposit with a specific maturity evidenced by a certificate.

**CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS)/INTRAFI NETWORK DEPOSITS.** A placement service (also known as IntraFi Network Deposits, including CDARS and ICS) that enables a depositor to access FDIC insurance beyond the standard limit by distributing deposits among a network of banks. FDIC coverage applies per depositor, per insured bank, per ownership category; the service itself does not expand legal coverage but allocates deposits to remain within limits.

**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.

**COLLATERALIZED BANK DEPOSIT.** A bank deposit that is collateralized at least 100% (principal plus interest to maturity). The deposit is collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

**COLLATERALIZED MORTGAGE OBLIGATIONS (CMO).** Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

**COLLATERALIZED TIME DEPOSIT.** Time deposits that are collateralized at least 100% (principal plus interest to maturity). These instruments are collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

**COMMERCIAL PAPER.** The short-term unsecured debt of corporations.

**COUPON.** The rate of return at which interest is paid on a bond.

**CREDIT RISK.** The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

**DEALER.** A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

**DEBENTURE.** A bond secured only by the general credit of the issuer.

**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.

**DERIVATIVE.** A derivative is a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index. For California local agencies, instruments such as inverse floaters, range notes, and interest-only mortgage strips are generally prohibited under California Government Code Section 53601.6.

**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 security to changes interest rates.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC).** The Federal Deposit Insurance Corporation (FDIC) is an independent federal agency insuring deposits in U.S. banks and thrifts in the event of bank failures. The FDIC was created in 1933 to maintain public confidence and encourage stability in the financial system through the promotion of 14 sound banking practices.

**FEDERALLY INSURED TIME DEPOSIT.** A time deposit is an interest-bearing bank deposit account that has a specified date of maturity, such as a certificate of deposit (CD). These deposits are limited to funds insured in accordance with FDIC insurance deposit limits.

**FAIR VALUE (GASB 31/72).** The exit price at the measurement date to sell an asset in an orderly transaction. Reported using the GASB 72 hierarchy (Levels 1–3).

**FLOATING-RATE NOTE (FRN).** A security whose coupon resets periodically to a reference index (e.g., SOFR) plus a spread. FRNs are distinct from inverse floaters, which are prohibited.

**GENERAL RESERVE FOR ECONOMIC UNCERTAINTY.** District Board-controlled reserve for significant revenue declines or emergencies; The reserve target is 15% of total annual operating expenses; the reserve is funded by transferring 50% of any year-end positive result (up to \$3.5 million) until full; access requires a District Board resolution.

**INTERNAL CONTROLS (INVESTMENTS).** Written procedures ensuring separation of duties, dual authorization for funds movement, delivery-versus-payment (DVP) settlement, and independent reconciliation to custodial records.

**LIQUIDITY RISK.** The risk that securities cannot be sold or converted to cash at or near fair value when needed to meet anticipated cash flows.

**LEVERAGE.** Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

**LIQUIDITY.** The speed and ease with which an asset can be converted to cash.

**LOCAL AGENCY INVESTMENT FUND (LAIF).** A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State of California State Treasurer's Office.

**LOCAL GOVERNMENT INVESTMENT POOL.** Investment pools that range from the Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

**MAKE WHOLE CALL.** A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

**MARKET RISK.** The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

**MARKET VALUE.** The price at which a security can be traded.

**MATURITY.** The final date upon which the principal of a security becomes due and payable.

**MEDIUM TERM NOTES.** Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. Corporate notes permitted under California Government Code Section 53601(k), are subject to maturity and issuer/rating limits.

**MODIFIED DURATION.** The percent change in price for a 100-basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

**MONEY MARKET.** The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

**MONEY MARKET MUTUAL FUND.** An SEC-registered fund governed by SEC Rule 2a-7 that invests in high-quality, short-term instruments. Institutional prime/tax-exempt funds may have floating NAVs, and funds may impose liquidity fees and redemption gates under stress.

**MORTGAGE PASS-THROUGH SECURITIES.** A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

**MUNICIPAL SECURITIES.** Securities issued by state and local agencies to finance capital.

**MUTUAL FUND.** An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus.

**NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO).** A credit rating agency that the SEC in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. Three example NRSROs are Fitch, S&P, and Moody's.

**NEGOTIABLE CERTIFICATE OF DEPOSIT (CD).** A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

**OPERATING RESERVE.** Funds kept in the operating fund to steady cash flow and handle

routine, unforeseen operating needs, consistent with the Fiscal Stability Policy's goals to maintain a strong operating base and prudent reserves.

**PRIMARY DEALER.** A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

**PRUDENT PERSON (PRUDENT INVESTOR) RULE.** A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

**REPURCHASE AGREEMENT.** A short-term, collateralized loan structured as a sale and forward repurchase of securities. Transactions should be governed by a Master Repurchase Agreement, executed DVP, and collateral held by an independent third-party custodian with appropriate margins and eligible collateral standards.

**SAFEKEEPING.** A service to bank customers whereby securities are held by the bank in the customer's name.

**SECURITIES AND EXCHANGE COMMISSION (SEC).** The U.S. Securities and Exchange Commission (SEC) is an independent federal government agency responsible for protecting investors, maintaining fair and orderly functioning of securities markets, and facilitating capital formation. It was created by Congress in 1934 as the first federal regulator of securities markets. The SEC promotes full public disclosure, protects investors against fraudulent and manipulative practices in the market, and monitors corporate takeover actions in the United States.

**SECURITIES AND EXCHANGE COMMISSION (SEC) RULE 15c3-1.** An SEC rule setting capital requirements for brokers and dealers. Under Rule 15c3-1, a broker or dealer must have sufficient liquidity in order to cover the most pressing obligations. This is defined as having a certain amount of liquidity as a percentage of the broker/dealer's total obligations. If the percentage falls below a certain point, the broker or dealer may not be allowed to take on new clients and may have restrictions placed on dealings with current client.

**SHORT-TERM INVESTMENTS.** Cash-equivalent holdings with an original or remaining maturity of one year or less, maintained to meet near-term liquidity needs while preserving principal and providing prudent income.

**STRUCTURED NOTE.** A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities, or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising. Structured notes that create leveraged or inverse exposure are generally prohibited for California local agencies under California Government Code Section 53601.6.

**SUPRANATIONAL.** A multinational development organization. Eligible U.S. dollar-denominated supranationals for California local agencies are limited by California Government Code Section 53601(q) (e.g., IBRD, IFC, IADB) and must meet policy ratings and maturity limits.

**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.

**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.

**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.

**WEIGHTED AVERAGE MATURITY (WAM).** Calculated by determining the weight of each maturity in the average, multiplying that weight by the security's maturity, and summing the weighted maturities. The weight is the proportion of total portfolio value that each security represents.

**YIELD TO MATURITY.** The annualized internal rate of return on an investment which equates to the expected cash flows from the investment to its cost.

## San Francisco Bay Area Rapid Transit District (BART)

### CERTIFICATION OF COMPLIANCE WITH INVESTMENT POLICY

The San Francisco Bay Area Rapid Transit District (the District), under the Investment Policy, requires that securities trading and placement of funds be conducted only with eligible Purchasing Entities. The Investment Policy also specifies that the District must obtain written certification that eligible Purchasing Entities have read, understood, and agree to comply with the Investment Policy, where applicable. This certification is necessary to be included on an approved list of Purchasing Entities that are eligible to conduct investment transactions with the District. The District has no obligation to enter into securities trading and/or placement of funds transactions with any or all Purchasing Entities on the list. The District retains the sole and exclusive discretion to determine which of the Purchasing Entities, if any, to engage in individual investment transactions. Eligibility may be revoked at any time, at the District's sole discretion, for any reason, including but not limited to, failure to meet the requirements of the policy and this exhibit.

**MSRB Rule G-37** *The District will not select or retain any broker, dealer, municipal securities dealer, or municipal advisor for municipal securities business or municipal advisory business if, within the preceding two (2) years, the firm, any of its municipal finance/advisor professionals, or any PAC they control has made a political contribution to an official of the municipal entity with selection influence, except for the de minimis exclusion. "Official of the municipal entity" means any incumbent, candidate, or successful candidate for an elective office of the District (e.g., members of the Board of Directors) or of the state/political subdivision with appointment authority over those who can influence hiring of dealers or advisors. A covered professional who is entitled to vote for the official may contribute up to \$250 per election without triggering the ban.*

Please complete the sections below, sign and return this completed form if you wish to be considered for inclusion on the approved list of Purchasing Entities eligible to conduct investment transactions with the District.

Please send the completed form  
via mail, to: and electronically, to:

Attn: Chief Financial Officer  
San Francisco Bay Area Rapid Transit District (BART)  
2150 Webster St, 10<sup>th</sup> Floor  
Oakland, CA 94612

**AND** CFO@bart.gov

**San Francisco Bay Area Rapid Transit District (BART)**

**CERTIFICATION OF COMPLIANCE WITH INVESTMENT POLICY (cont.)**

A. Entity Name: \_\_\_\_\_

B. My entity is a: (choose all that apply, at least one must be checked for eligibility)

- Primary Dealer as designated by the Federal Reserve Bank of New York
- National or California State Chartered Bank
- Federal or California Chartered Savings Institution
- Broker-Dealer registered with the State of California

**AND**

I certify that my entity is: (both must be checked for eligibility)

- registered by the Securities and Exchange Commission (SEC)
- a member in good standing of the Financial Industry Regulatory Authority (FINRA)

C. My entity is an:

- issuer of securities eligible for purchase by the District

D. I have provided:

- Audited Financial Statements

I acknowledge receipt of the District's Investment Policy. I certify that I have read, understood, and agree to comply where applicable with the District's Investment Policy.

Print Name: \_\_\_\_\_ Sign Name: \_\_\_\_\_

Title: \_\_\_\_\_ Date: \_\_\_\_\_

**San Francisco Bay Area Rapid Transit District (BART)**

**BROKER-DEALER RECEIPT OF INVESTMENT POLICY**

We are in receipt of the San Francisco Bay Area Rapid Transit District (BART) Investment Policy.

We have read the policy and understand the provisions and guidelines of the policy. All salespeople covering BART's account will be made aware of this policy and will be directed to give consideration to its provisions and constraints in selecting investment opportunities to present to BART.

Signature:

Signature:

Printed Name:

Printed Name:

Title:

Title:

Date:

Date:

Firm:

After reading and signing this Receipt of Investment Policy, please return with supporting documentation to:

Attn: Chief Financial Officer  
San Francisco Bay Area Rapid Transit District (BART)  
2150 Webster St, 10<sup>th</sup> Floor  
Oakland, CA 94612  
[CFO@bart.gov](mailto:CFO@bart.gov)

**Example Report  
Pool Portfolio Portfolio  
Management Portfolio  
Summary January 31,  
2025**

<b>Investments</b>	<b>Par Value</b>	<b>Market Value</b>	<b>Book Value</b>	<b>% of Portfolio</b>	<b>Term</b>	<b>Days to Maturity</b>	<b>YTM 360 Equiv.</b>	<b>YTM 365 Equiv.</b>
Federal Agency Issues - Coupon	549,189,333.33	541,850,592.80	548,781,737.92	26.49	1,208	507	3.299	3.345
Federal Agency Issues - Discount	899,000,000.00	887,361,064.89	878,782,802.42	42.41	189	112	4.378	4.439
Money Market	345,000,000.00	345,000,000.00	345,000,000.00	16.65	1	1	4.251	4.310
Local Agency Investment Funds	75,000,000.00	74,971,648.88	75,000,000.00	3.62	1	1	4.306	4.366
Negotiable CD's	45,000,000.00	45,053,665.00	45,000,000.00	2.17	322	168	4.961	5.030
Federal Agency Issues-Coupon/Bullet	109,450,000.00	109,302,222.49	109,373,271.94	5.28	615	135	4.476	4.539
Commercial Paper - Discount	50,000,000.00	49,765,890.00	49,045,838.89	2.37	150	38	4.732	4.798
Money Market Bank Account	21,020,791.85	21,020,791.85	21,020,791.85	1.01	1	1	5.029	5.099
<b>Investments</b>	<b>2,093,660,125.18</b>	<b>2,074,325,875.91</b>	<b>2,072,004,443.02</b>	<b>100.00%</b>	<b>443</b>	<b>194</b>	<b>4.102</b>	<b>4.158</b>
<b>Cash and Accrued Interest</b>								
Accrued Interest at Purchase		33,991.67	33,991.67					
Subtotal		33,991.67	33,991.67					
<b>Total Cash and Investments</b>	<b>2,093,660,125.18</b>	<b>2,074,359,867.58</b>	<b>2,072,038,434.69</b>		<b>443</b>	<b>194</b>	<b>4.102</b>	<b>4.158</b>
<b>Total Earnings</b>								
	<b>January 31</b>	<b>Month Ending</b>	<b>Fiscal Year To Date</b>					
Current Year		7,357,120.27	52,373,521.67					
<b>Average Daily Balance</b>		<b>2,091,439,500.55</b>	<b>2,020,185,918.16</b>					
<b>Effective Rate of Return</b>		<b>4.14%</b>	<b>4.40%</b>					