

NORTH COUNTY TRANSIT

SAN DIEGO RAILROAD

Board Policy No. 9 **Investment Policy**

Summary

This document establishes the North County Transit – San Diego Railroad (NCTD) investment policy, pursuant to Resolution No. 19-06, dated October 17, 2019. This Investment Policy provides guidance and direction for the prudent investment of NCTD funds.

Purpose

The investment policies and practices of NCTD are based upon state law and prudent money management. All funds will be invested in accordance with the NCTD Investment Policy and the California Government Code. The primary objectives of this policy are:

- a) **Safety.** Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.
- b) **Liquidity.** The investment portfolio will remain sufficiently liquid to enable NCTD to meet its cash flow requirements.
- c) **Return on Investment.** The investment portfolio shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

Scope

This investment policy applies to all the investment activities of NCTD, with the exception of the proceeds from certificates of participation or bonds, which are subject to the conditions and restrictions of the corresponding debt documents. This policy does not apply to pension or retirement trust funds.

Prudence

- a) In accordance with California Government Code Section 53600.3, “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.”

Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

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Delegation of Authority

- a) In accordance with NCTD Board of Directors (Board) resolutions and Board-adopted amendments thereto, the Chief Financial Officer is the Treasurer and is responsible for investing surplus cash. The daily management responsibility for the investment program is assigned to the Chief Financial Officer who monitors and reviews investments for consistency with this investment policy. All accounts established for the purpose of investing NCTD funds shall require the approval of the Board of Directors. All investment activity of NCTD require the signature of both the Chief Financial Officer and Chief Executive Officer.
- b) The Chief Executive Officer and/or the Treasurer may delegate investment management and decision authority, via written agreement, to one or more professional investment advisors/managers that are qualified and registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Agents engaged in this capacity shall make investment decisions and transactions in strict accordance with state law and this investment policy.

Ethics (Conflict of Interest)

Officers and employees involved in the investment process shall comply with state law and refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. NCTD Board Policy No. 8 - *Conflict of Interest Code*, establishes NCTD's conflict of interest code pursuant to the Political Reform Act (Government Code Section 8100, et seq.).

Pooled Investment Funds

NCTD may invest in pooled investment funds listed below that are provided by the State of California and the San Diego County Treasurer:

- a) State of California's Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1. There is no limit on the percentage of NCTD's portfolio that may be invested in LAIF, though LAIF may impose statutory limits.
- b) The San Diego County Treasurer's Pooled Money Fund (SDPMF). There is no limit on the percentage of NCTD's total portfolio that may be invested in SDPMF.

Authorized Financial Institutions and Brokers/Dealers

- a) If direct security investments are made by NCTD, NCTD's procedures shall be designed to encourage multiple bids and offers on investment transactions. The Evaluation Committee shall evaluate the qualifications of all qualified firms and choose the most qualified firm based on evaluation criteria. The Board shall approve the authorization of any qualified firm.

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- b) NCTD shall transact business only with banks, savings and loan associations, and registered investment securities dealers. The purchase by NCTD of any investment other than those purchased directly from the issuer shall be either from an institution licensed by the state as a broker/dealer, as defined in Section 25004 of the Corporation Code, who is a member of the National Association of Securities Dealers (NASD), or a member of a federally-regulated securities exchange, a national or state-chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.
- c) All financial institutions and brokers who desire to become qualified bidders for investment transactions will be given a copy of the NCTD Investment Policy, and a return cover letter which must be signed indicating that the investment policy has been read and understood. Qualified financial institutions and brokers must supply the Treasurer with the following:
 - i. Financial Institutions:
 - ii. Current audited financial statements.
 - iii. Depository contracts, as appropriate.
 - iv. Proof that commercial banks and savings banks are state or federally chartered.
 - v. In addition to the above, commercial banks and savings banks must maintain a minimum net worth to asset ratio of three (3) percent (total regulatory net worth divided by total assets) and must have had positive net earnings for the last reporting period.
- d) Brokers:
 - i. Current audited financial statements.
 - ii. Proof that brokerage firms are members in good standing of a national securities exchange.
 - iii. In addition, to be eligible for consideration to become an authorized provider, each broker/firm must have a net capital position in excess of \$10 million; have been in business for at least five (5) years; are currently licensed as a broker-dealer or investment adviser in California; and must carry adequate insurance coverage including liability, errors and omissions, and workers' compensation (if applicable).
- e) Firms providing only representation of money market funds are exempt from the requirement under Section 8(a), but must still comply with all other requirements, including those listed below.
- f) All firms authorized to do business with NCTD must continue to comply with the following requirements on an annual basis:
 - i. Submit audited financial statements within six (6) months of their fiscal year-end.
 - ii. Provide proof of their National Association of Securities Dealers (NASD) certification and must disclose to NCTD any regulatory actions or complaints against the broker assigned to the NCTD account.
 - iii. Provide proof of their registration/license to do business in the State of California and shall immediately disclose to NCTD any change in that status.
 - iv. Certify in writing that they have received, read, and agree to comply with the most recently adopted NCTD Investment Policy.

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- g) If an external investment advisor is authorized to conduct investment transactions on NCTD's behalf, the investment advisor may use its own list of approved broker/dealers and financial institutions for investment purposes. These transactions must be consistent with the standards adopted by the NCTD Board.

Authorized Investments

All NCTD investments shall be made in accordance with California Government Code Section 53600 et seq. The portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Government Code Section 53601 states that when there is a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Credit requirements listed in the investment policy apply at the time of purchase. In the event of a credit downgrade below the minimum acceptable credit rating, NCTD shall require investment advisors engaged in the investing of NCTD funds to notify the NCTD Treasurer of the downgrade and provide a plan of action to address the downgrade.

The authorized investments and associated limitations are as follows:

- a) *U.S. Treasury Obligations.* United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest, with a final maturity not exceeding five years from the date of trade settlement. There is no limitation as to the percentage of the portfolio which can be invested in this category.
- b) *State Obligations: California and Others.* Registered treasury notes or bonds of any of the 50 United States, including bonds payable solely out of 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 states, with maturities not exceeding five years from the date of trade settlement. Such obligations must be rated A-1 or its equivalent or better short-term; or in a rating category of AA or its equivalent or better long-term by at least one of the nationally recognized statistical-rating organizations. There is no limitation as to the percentage of the portfolio which can be invested in this category. No more than 10 percent of NCTD funds may be invested in the obligations of any one issuer.
- c) *California Local Agency Obligations.* Bonds, notes, warrants, or other evidence of indebtedness issued by any local agency within the State, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency, with maturities not exceeding five years from the date of trade settlement. Such obligations must be rated A-1 or its equivalent or better short-term; or in a rating category of AA or its equivalent or better long-term by one of the nationally recognized statistical-rating organizations. There is no limitation as to the percentage of the portfolio which can be invested in this category. No more than 10 percent of NCTD funds may be invested in the obligations of any one issuer.
- d) *U.S. Agency Obligations.* Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises, with maturities not exceeding five years from the date of trade settlement. There is no limitation as to the percentage of the portfolio which can be invested in this category.

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- e) *Bankers' Acceptances.* Bankers' Acceptances issued by domestic banks or domestic branches of foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest rating category by one of the nationally recognized statistical-rating organizations. Purchases of Bankers' Acceptances may not exceed 180 days maturity or 40 percent of NCTD investments. No more than 10 percent of NCTD funds may be invested in the Bankers' Acceptances of any one commercial bank.
 - f) *Commercial Paper: Non-pooled Funds.* Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (i) or paragraph (ii):
 - i. The entity is (1) organized and operating in the United States as a general corporation, (2) has total assets in excess of five hundred million dollars (\$500,000,000) and (3) has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by a nationally recognized statistical-rating organization.
 - ii. The entity is (1) organized within the United States as a special purpose corporation, trust, or limited liability company, (2) has program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond, and (3) has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.
- Eligible commercial paper shall have a maximum maturity of 270 days or less. NCTD may invest no more than 25 percent of its portfolio in eligible commercial paper and shall not purchase more than 10 percent of the outstanding commercial paper of any single issuer.
- g) *Negotiable Certificates of Deposit.* Negotiable certificates of deposit issued by a nationally or state-chartered bank or a state or federal savings bank or by a federally-licensed or state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated "A" or better by a nationally recognized statistical rating organization, with a final maturity not exceeding five years. No more than 10 percent of NCTD's portfolio shall be held in any one negotiable certificate of deposit or allocated to any one issuer, and the aggregate investment in non-negotiable certificates of deposit and negotiable certificates of deposit shall not exceed 30% of NCTD's total portfolio.
 - h) *Non-Negotiable Certificates of Deposit.* Non-Negotiable Certificates of Deposit may only be indirectly utilized as a permitted investment by the California Local Agency Investment Fund or the San Diego County Treasurer's Pooled Money Fund.
 - i) *Repurchase Agreements.* Repurchase agreements used solely as short-term investments not-to-exceed 92 days. The Repurchase Agreement exposure to a single broker/dealer shall not exceed 10% of NCTD's total portfolio and no more than 40% of NCTD's portfolio may be invested in repurchase agreements.

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying repurchase agreements must be delivered to NCTD's custodian bank or handled under a properly executed tri-party repurchase agreement. The total of all collateral for each Repurchase Agreement must equal or exceed, on the basis of market value plus accrued interest, 102% of the total dollar value of the money invested by NCTD for the term of the investment. Since the market value of the underlying securities is subject to daily fluctuation, the investments in repurchase agreements shall be in compliance if the value

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of the underlying securities is brought back up to 102% no later than the next business day.

Market value must be calculated each time there is a substitution of collateral.

NCTD or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

NCTD may enter into Repurchase Agreements with (1) primary dealers in U.S. Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York, and (2) California and non-California banking institutions having assets in excess of \$1 billion and in the highest short-term rating category as provided by Moody's Investors Service, Inc. or Standard & Poor's Corporation.

NCTD will have properly executed a Public Securities Association (PSA) agreement with each firm with which it enters into repurchase agreements.

- j) *Reverse Repurchase Agreements.* Reverse Repurchase Agreements may only be indirectly utilized as a permitted investment by the California Local Agency Investment Fund or the San Diego County Treasurer's Pooled Money Fund.
- k) *Medium-Term Notes.* Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by an NRSRO. Purchase of medium-term corporate notes may not exceed 30 percent of NCTD's surplus funds and no more than 10% of NCTD's total portfolio may be invested in the medium-term notes of any one corporation.
- l) *Savings and Money Market Accounts.* NCTD funds may be held for safekeeping in state or national banks, savings associations, federal associations, credit unions, or federally insured industrial loan companies in this state selected by the Treasurer or other official having legal custody of the money. Any institution must have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low-and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code.
- m) *Money Market Funds.* Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.). To be eligible for investment pursuant to this subsection, these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally-recognized statistical-rating organizations, or (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five-years' experience managing money market mutual funds with assets under management in excess of \$500,000,000.

The purchase price of shares of beneficial interest purchased pursuant to this subsection shall not include commission that the companies may charge and shall not exceed 20 percent of NCTD's portfolio. No more than 10% of NCTD's portfolio may be invested in shares of beneficial interest of any one money market fund.

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- n) *Mortgage Pass-through and Asset Backed Securities.* Any mortgage pass-through security collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable-pass-through certificate, or consumer receivable-backed bond of a maximum of five years maturity. Securities eligible for investment under this subdivision shall be issued by an issuer rated in a rating category of “A” or its equivalent or higher rating for the issuer’s debt as provided by an NRSRO and rated in a rating category of “AA” or its equivalent or better by an NRSRO. Purchases of securities authorized by this subsection may not exceed 20% of NCTD’s portfolio.

Prohibited Investments

Security types which are prohibited include, but are not restricted to:

- a) “Complex” derivative securities such as range notes, dual index notes, inverse floating-rate notes, leveraged or deleveraged floating-rate notes, or any other complex variable-rate or structured note.
- b) Interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.
- c) Securities lending.

Maximum Maturity

Investment maturities shall be based upon a review of cash flow forecasts. Maturities will be scheduled to permit NCTD to meet all projected obligations. NCTD will not invest in instruments whose maturities exceed five years at the time of trade settlement, unless the Board has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board no less than three months prior to the investment.

Performance Standards

The investment performance of NCTD’s portfolio shall be evaluated and compared to appropriate indices in order to assess the success of the investment program. The comparable benchmarks should be consistent with NCTD’s portfolio in terms of maturity and composition, which includes credit quality and security type.

Reporting Requirements

- a) The Treasurer or designee shall submit to the Board annually, a statement of investment policy, which the Board shall consider at a public meeting.
- b) Quarterly investment reports shall be submitted to the Board at a subsequent regularly scheduled Board meeting. The report should include the following information:
 - i. Description of investment instrument
 - ii. Interest rate (annualized) or yield to maturity
 - iii. Book value
 - iv. Current market value
 - v. If applicable: name of issue, coupon rate, purchase date, maturity date, and purchase price

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- c) The quarterly report shall state whether the portfolio is in compliance with this investment policy or describe whether the portfolio is not in compliance. The Treasurer shall include a statement on the ability of NCTD to meet its expenditure requirements for the next six months.

Safekeeping and Custody

- a) The Treasurer may select one or more banks to provide third-party safekeeping and custodial services for NCTD, in accordance with the provisions of Section 53608 of the California Government Code. A Safekeeping Agreement approved by NCTD shall be executed with each custodian bank prior to utilizing that bank's safekeeping services. Custodian banks will be selected on the basis of their ability to provide services for NCTD's account and the competitive pricing of their safekeeping related services.
- b) The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. All securities shall be held in the name of NCTD, with sufficient evidence to title consistent with modern investment, banking and commercial practices.
- c) The only exception to the foregoing shall be securities purchases made with: (i) LAIF, (ii) San Diego County Treasurer's Investment Pool, (iii) bank deposits, and, (iv) money market mutual funds, since the purchased securities are not deliverable.

Review, Adoption, and Amendments

This Investment Policy shall be reviewed annually by the NCTD Board. It may not be altered, amended or changed in any particular way, except by formal approval of the Board.

Approvals



Board Chair

10/23/2025
Date



Chief Executive Officer

10/23/2025
Date



Deputy Chief Executive
Officer/Chief General Counsel

10/23/2025
Date

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DATE	REVISION No.	RESOLUTION No.	COMMENTS
10/18/2012	ADOPTED	12-10	
10/17/2013	1	13-07	2013 REVISION
10/16/2014	2	14-04	2014 REVISION
11/19/2015	3	15-08	2015 REVISION
10/20/2016	4	16-10	2016 REVISION
10/19/2017	5	17-10	2017 REVISION
10/17/2019	7	19-06	2019 REVISION
10/17/2024	8	24-08	2024 REVISION: UPDATES TO POSITION TITLES
10/23/2025	9	25-06	2025 REVISION: UPDATES TO POSITION TITLES AND GENERAL FORMATTING THROUGHOUT