SOUTH BAY
REGIONAL HOUSING TRUST

STATEMENT OF INVESTMENT POLICY

Introduction

The South Bay Regional Housing Trust ("SBRHT" or "Trust') was established on April 1, 2026, by the execution of the Joint Exercise of Powers Agreement (the "Agreement") pursuant to the Joint Exercise of Powers Act set forth at California Government Code Section 6500 *et seq*. [1]

The vision of the Trust is to secure funding for the region that will increase the production of affordable housing and provide safe and quality homes for lower- and moderate-income individuals and families. The mission of the Trust is to finance the development of affordable housing in the region and thereby increase the supply of housing to lower- and moderate-income individuals and families.

This Investment Policy has been created to formalize the Trust's commitment to employing prudent investment strategies of its available funds. It aims to uphold public interest by effectively managing investments and ensuring fiscal responsibility and accountability. Any necessary changes to this policy will be made in accordance with federal or state requirements. The Trust Board of Directors will conduct an annual review and adopt revisions during regular meetings as needed.

I. Policy Statement

The Trust, through the adoption of this policy, shall invest public funds in a manner that will:

1. Safeguard the principal of the funds under its control.
2. Meet the liquidity needs of the Trust.
3. Achieve a return on the funds under its control.[2]

Further, the Trust will conform to all applicable Federal, State, and Trust statutes governing the investment of public funds.

---

[1] California Government Code Section 6539.1 pertains to the establishment of regional housing trusts. It outlines the legal framework for creating these trusts, specifying their purposes, which primarily involve addressing housing needs for homeless populations and individuals and families with low to moderate incomes. The section details the formation process, the trust's powers, and the allocation of funds, emphasizing the goal of providing affordable housing and support services within the region. Additionally, it specifies the trust's authority to partner with public and private entities to achieve its objectives.

[2] These are the three funding priorities according to California Government Code Section 53600.5

II. Maintain The Public Trust

All participants in the investment process shall act as custodians of the public trust. Participants shall recognize that the investment portfolio is subject to public review and evaluation. The overall policy shall be designed and managed with a degree of professionalism that is worthy of the public trust.

III. Delegation of Authority

The Trust Treasurer is the designated Investment Officer of the Trust and is responsible for implementing this Investment Policy and making investment allocation decisions consistent with this Policy and applicable law. The Trust Executive Director is authorized to execute investment transactions and administer the Investment Policy in accordance with this Policy, California Government Code Sections 53600 et seq., and the direction of the Trust Treasurer. The Trust Executive Director, Trust Chair, and Trust Vice Chair are authorized to order the deposit or withdrawal of funds in the Local Agency Investment Fund (LAIF).

IV. Investment Philosophy and Prudence

The standard of prudence to be used in the investment function shall be the "Prudent Investor Standard" and shall be applied in the context of managing the overall portfolio. Securities shall generally be held until maturity, with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- Liquidity needs of the portfolio require that the security be sold.
- A security swap would improve the quality, yield, or target duration in the portfolio.

Prudent Investor Standard: When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law. In consideration of an investment, the safety of the capital as well as income is part of the "prudent person" approach. Investment officers acting in accordance with 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.

V. Scope

The scope of this investment policy applies to all financial assets and funds held by the Trust. The Trust Treasurer shall direct the investment of Trust funds in accordance with this Policy and California Code Sections 53600 et seq. The Trust Executive Director is authorized to execute investment transactions and administer Trust investments consistent with this Policy and the direction of the Trust Treasurer.

VI. **Objectives**

The investment policy and practices of the Trust are based upon State law and prudent money management. The primary objectives of this policy are in priority order:

SAFETY OF PRINCIPAL: Safety of principal is the foremost objective of the Trust. The investment of funds shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To achieve this goal, diversification is required in the portfolio's composition. The investment portfolio will be diversified to avoid unreasonable and avoidable risks regarding specific security types and individual financial institutions. With diversification, failure of any one institution would not unduly harm the Trust's cash flow.

LIQUIDITY: The investment portfolio shall be structured to match expected cash flow needs. Trust investments must be able to be easily sold with minimal risk of loss of principal or interest.

Therefore, the Trust's investment portfolio will remain sufficiently liquid to enable the Trust to meet operating requirements which might be reasonably anticipated.

YIELD: Return on investment becomes a consideration after the basic requirements of investment safety and liquidity are achieved. The Trust's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles commensurate with the Trust's investment risk constraints and the cash flow of the portfolio. The Trust's investment portfolio is designed to operate on a general "buy and hold" premise.

VII. **Authorized Investments and Suitable Investments**

It is the policy of the Trust to diversify its investment portfolio. Invested funds shall be diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity, specific issuer, or specific class of securities. As part of the Trust diversification strategy, investments will be matched with anticipated cash flow requirements. Investment of Trust funds is governed by the California Government Code Sections 53600 *et seq*.

One of the eligible and authorized investment options for the Trust is to invest available funding into the Local Agency Investment Fund (LAIF), a voluntary program created by statute, which began in 1977 as an alternative for California's local governments and special districts, and it continues today under the State Manager's office. The enabling legislation for the LAIF is California Government Code Section 16429.1 *et seq*. The LAIF has grown from 293 participants and $468 million in 1977 to 2,341 participants and $20.3 billion at the end of July 2024. This program offers local agencies the opportunity to participate in a major portfolio, which invests hundreds of millions of dollars, using the investment expertise of the State Manager's Office professional investment staff at no additional cost to the taxpayer. The maximum amount any one agency can invest in LAIF is $75 million.

So rather than the complication of the Trust Board of Directors and the Trust Treasurer reviewing and deciding which investments meet the various government codes and limits, the Trust has the option to utilize the expertise of the State Manager's office to manage the Trust's available investment funds.

In the event the Trust Board of Directors desires investments in addition to the LAIF, the following investments are authorized as further limited herein:

A. ***United States Treasury Obligations*** 100% Maximum

United States Treasury Bill, Notes and Bonds, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. This investment is both safe and liquid. There is no percentage limitation on the funds that can be invested in this category. Although a five-year maturity limitation is applicable.

B. ***Federal Agency Obligations*** 100% Maximum

The Trust may invest in federally sponsored agency securities including obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), the, Federal Agricultural Mortgage Corporation (Farmer Mac) and the Federal National Mortgage Association (FNMA). The "prudent investor" rule shall apply to a single agency name, as U.S. Government backing is implied rather than guaranteed. There is no percentage limitation on the funds that can be invested in this category. Although a five-year maturity limitation and a maximum of forty percent (40%) per issuer is applicable.

C. ***Collateralized Time Deposits (CDs)*** 50% Maximum

The Trust may invest in non-negotiable time deposits collateralized in accordance with Government Code Sections 53651-53652 in those banks that meet the requirements for investment in Certificates of Deposit. All investments in time deposits must be issued by a financial institution whose performance has been reliable and whose safety rating meets the standards established by the Trust Treasurer. The Trust Treasurer will periodically monitor the operating performance of all financial institutions holding Trust time deposits. Financial institutions must provide proof of collateralization by submitting third-party trustee reports detailing securities that represent collateralization for Trust accounts monthly. Collateralization will be required for certificates of deposit. The Trust chooses to limit collateral to the Government Securities. Collateral will always be held by an independent third party. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the Trust and retained.

D. ***Banker’s Acceptances*** 10% Maximum

The Trust may invest in Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker’s acceptances. Banker’s acceptances purchased may not exceed seven days to maturity or thirty percent of the market value of the funds and shall follow Government Code Section 53601(g).

E. ***Commercial Paper*** 15% Maximum

The Trust may invest in Commercial Paper with a short-term rating of “P-1” by Moody’s Investor Services or “A-1” by Standard and Poor’s and issued by a corporation that is organized and operating within the United States with assets more than $500,000,000 and having an “A” or better rating on its long-term debentures, if any, as provided by Moody’s or Standard and Poor’s. Purchases of eligible commercial paper may not exceed fifteen (15%) of the market value of the Trust’s funds nor represent more than ten (10%) from any single issuing corporation. The term to maturity may not exceed 270 days.

F. ***Negotiable Certificates of Deposits*** 30% Maximum

The Trust may invest in negotiable time deposits issued by a financial institution whose performance has been reliable and whose safety rating is four stars or better. The Trust Treasurer will periodically throughout the year monitor the operating performance of all financial institutions holding deposits.

G. ***Certificates of Deposit – Private Placement*** 30% Maximum

The Trust may invest in Certificates of Deposit through a selected depository institution that utilizes a private sector entity to assist in the placement of certificates with one or more depository institutions to always ensure that the full amount of the deposit and accrued interest be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration. These investments are commonly identified as CDARS, and are in accordance with California Government Code Section 53601.8.

H. ***Local Agency Investment Fund*** $75 Million Per Account

The Trust may invest in the Local Agency Investment Fund (LAIF) as established by the State Manager of California for the benefit of local agencies up to the maximum amount permitted by State law, which is currently $75 million per account.

I. ***Money Market Funds or Mutual Funds*** 20% Maximum

The Trust may invest in shares of beneficial interest issued by diversified management companies that are money market funds (MMFs) registered with the Securities and Exchange Commission under the federal Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.). To be eligible for investment, these companies shall either: (1) attain the highest rating of AAA by at least two nationally recognized statistical rating organizations, one of which must be S&P or Moody's, or (2) retain an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500 million. No more than 10% of the surplus funds may be invested in shares of any one money market fund. Allowable investments for this category shall be limited to MMFs which primarily invest only in government securities and repurchase agreements collateralized by government securities.

J. ***Medium Term Corporate Notes*** 20% Maximum

The Trust may invest in debt securities issued by a corporation organized and operating in the United States or a depository institution licensed by the United States or any state and operating within the United States. Local agencies are restricted by California Government Code to invest in corporations rated in the top three note categories by Moody's Investor Service, Inc., and/or Standard and Poor's Corporation, the lowest being a rating category of "A. No more than 5% of surplus funds may be invested in any single issuer. If an issuer is downgraded, an analysis will be prepared showing the Trust's exposure and to determine whether the security should continue to remain in the portfolio or sold.

K. ***State/Municipal Bonds*** 20% Maximum

The Trust may invest in bonds issued by the State of California or any local agency in the State of California, 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. All bonds must be rated AA or better by Moody's or Standard & Poor's. Due diligence must be performed to ensure that the revenues dedicated to the repayment of the bonds and interest cannot be interrupted.

L. ***Supranational Obligations*** 10% Maximum

The Trust may invest in United States dollar-denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development of the World Bank (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IABD), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments must have a minimum rating of AA by Moody's and Standard & Poor's and shall not exceed 30% of the Trust's surplus funds, and not more than 5% of the market value of the portfolio may be invested in notes issued by any one supranational.

VIII. Bond Revenue

Bond revenue, if any, shall remain separate from the Trust investment and administrative accounts. These funds shall be invested pursuant to the instructions provided by the bond indenture. Should the bond indenture conflict with this policy, then such investments shall be made in accordance with the bond indenture.

IX. Authorized Financial Dealers and Institutions

The Trust will work with the California State Manager's office regarding the LAIF to invest all Trust funding. Any other financial dealers and institutions must be approved by the Trust Board of Directors and provide proof that they are financial institutions authorized to provide investment services in the State of California. All Trust financial dealers and institutions must further ensure that investments are purchased only through well-established, financially sound institutions, a list will be maintained of approved security brokers/dealers selected by credit worthiness, adequate capitalization, and an agreement to abide by the conditions outlined in the Trust's Investment Policy.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions will be given a copy of the Trust's Investment Policy, and in turn must supply the Trust Treasurer with the following:

- Current audited financial statements
- A copy of the latest FDIC Call Report or FHLBB Report, as appropriate
- Proof of FINRA certification and good standing
- Proof of State or Federal registration or charter, as appropriate
- Completed broker/dealer questionnaire
- Certification of having read and agreed to the Trust's investment policy
- Depository contract
- Proof that brokerage firms are members in good standing on a national securities exchange.
- Must be a member of the SIPC- Securities Investors Protection Corporation

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Trust Treasurer.

X. Internal Control

The Trust Treasurer shall establish appropriate procedures designed to provide proper control over investments and deposits. On an annual basis these controls will be reviewed in conjunction with the annual audit of the Trust. This review will assure compliance with policies and procedures.

XI. **Ethics and Conflicts of Interest**

The Trust Treasurer shall avoid any transaction that might impair public confidence in the Trust's ability to govern and manage the investment of public funds in an effective manner. The Trust Treasurer or any other official charged with the responsibility of making investment decisions shall have no vested interest in any investment being made involving public funds of the Trust and shall gain no financial benefit from such investment decisions. All participants in the Trust's investment process shall seek to act responsibly as custodians of the public trust and shall immediately disclose to the Trust Board of Directors any material financial interests in financial institutions that conduct business within their jurisdiction as well as any large personal financial/investment positions that could be related to the performance of the Trust.

XII. **Performance Standards**

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. Given this objective, the benchmark for investments shall reflect the prominent and persistent characteristics of the portfolio over time. The benchmark may be adjusted periodically when material changes take place.

XIII. **Reporting**

The Trust Treasurer shall render monthly investment reports to the Trust Board of Directors. In addition, the Statement of Investment Policy will be provided annually. The monthly reports shall include:

- The Par/Face, Cost and Market value of the investment
- The classification of the investment
- The name of the institution or entity
- The maturity date
- Percentage of the investment portfolio represented by each investment category
- A statement of compliance or manner in which the portfolio is not in compliance
- A statement as to the ability of the Trust to meet its expenditure requirements for the next six months or an explanation of why sufficient money may not be available

XIV. **Investment Policy Review**

The investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of SAFETY, LIQUIDITY, and YIELD and its relevance to current law, financial, and economic trends and to meet the needs of the Trust. The Trust's investment policy shall be adopted by resolution by the Trust Board of Directors. This policy shall be reviewed annually by the Trust Board of Directors and any amendments to the investment policy must be approved by a unanimous vote of the Trust Board of Directors.

XV. **Review of Investment Portfolio**

The securities held by the Trust must follow Section VII Authorized and Suitable Investments at the time of purchase. Because some securities may not comply with Section VII Authorized and Suitable Investments subsequent to the date of purchase, the Trust Treasurer shall at least quarterly review the portfolio to identify those securities that do not comply. The Trust Treasurer shall report to the Trust Board of Directors any major and critical incidences of noncompliance identified through the review of the portfolio.

XVI. **Collateralization**

Pursuant to Government Code Sections 53652 through 53667, the Trust requires depositories to post certain types and levels of collateral for public funds above the Federal Deposit Insurance Corporation (FDIC) insurance amounts. The collateral requirements apply to bank deposits and certificates of deposit.

Collateral shall always be held by an independent third party with whom the entity has a current written custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of substitution is granted.