PURPOSE
This policy is intended to provide guidelines for the prudent investment of funds and outline the policies for maximizing the effectiveness and efficiency of the ASC’s investment management plan. This policy also provides guidelines to assist the Investment Committee and the investment managers in effectively supervising, monitoring and evaluating the ASC’s portfolio. This policy further establishes the investment restrictions placed upon the investment managers and outlines procedures for portfolio performance review.

OBJECTIVE
The primary investment objective is to achieve risk-adjusted real returns necessary to preserve and grow capital and to support the long term spending requirements of the ASC. The ASC Investment Committee and its investment managers must properly balance the following overall objectives:

a. Liquidity. The ASC’s investment portfolio will remain liquid to enable it to meet anticipated operating and cash flow requirements.

b. Return on Investments. The investment portfolio shall be designed to attain a market or better rate of return throughout a full economic cycle.

c. Preservation of Capital. Sufficient limitations are placed on risks associated with the implementation of the Return on Investments objective and to protect the portfolio through the diversification of assets and the setting of specific quality standards.

d. Diversification. Portfolio manager is responsible for maintaining the balance between fixed income and equity securities based on set asset allocations.

SCOPE
The funds identified in this section, and entrusted to the ASC, will be pooled in an actively managed portfolio. The ASC shall meet the standards set forth in the “Prudent Investor” rule which states, “Investment shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

This policy is applicable, but not limited to, the funds listed below:
DELEGATION & AUTHORITY

Investment Committee
The Investment Committee was established by the ASC Board of Directors (“Board”) to develop investment policies and guidelines for consideration and action by the Board. Effective management of the ASC’s investments is the responsibility of the Investment Committee.

The Investment Committee is composed of the ASC’s Chairman of the Board, Executive Director, Chief Financial Officer, two (2) members from its Executive Committee, and at least (1) but no more than three (3) community members elected by a Board majority vote.

1. The Investment Committee develops investment policies and guidelines.
2. The Investment Committee obtains approval of the Board of Directors before implementing any changes to the investment policy.
3. The Investment Committee has the responsibility and authority to select and evaluate investment management organizations.

Chief Financial Officer (CFO) / Treasurer
1. The ASC CFO is responsible for keeping the Investment Committee informed of all matters affecting the investment program and assisting the Investment Committee in carrying out its responsibilities.
2. The CFO plans, formulates and recommends for approval of the Investment Committee, the policies and programs to further the objectives of the investment program.
3. The CFO develops a system of internal investment and accounting controls, while establishing a segregation of responsibilities of investment functions to ensure an adequate system of internal controls over the investment function.
4. The CFO implements all investment decisions of the Board of Directors and Investment Committee.

ASSET ALLOCATION & REBALANCING
To achieve its investment objectives, the ASC’s investments shall be allocated among a number of investment classes. The purpose of allocating the investment portfolio asset classes is to ensure the proper level of diversification within the portfolio. The Investment Committee will review and recommend asset class allocation targets and minimum/maximum ranges at least once a year. The portfolio is to be rebalanced at least annually in accordance with market
fluctuations, so it remains within ten percentage (10%) points of the ranges of targeted asset allocations and the planned distribution among investment managers, keeping in mind that rebalancing is a function of expected returns, volatility and return correlations of the portfolio. Rebalancing should also be weighed against the additional costs of frequent trading and internal resources. Formal asset allocation studies will be conducted at least every three (3) years, with evaluations of the validity of the adopted asset allocation.

The target asset allocation for the pooled investment portfolio will be the following:

<table>
<thead>
<tr>
<th>Category</th>
<th>Range</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Equivalents</td>
<td>0-20%</td>
<td>5%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>10-40%</td>
<td>35%</td>
</tr>
<tr>
<td>Equity</td>
<td>25-80%</td>
<td>55%</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td>0-5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

INVESTMENT GUIDELINES

Overall Guidelines
1. The general policy is to diversify investments among both equity and fixed income securities to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

2. No more than five percent (5%) of the asset class may be invested in any single equity or fixed income issuer, excluding U.S. Treasury Securities and U.S. Government Agency Securities, at time of purchase.

3. Exposure to any industry sector shall be limited to twenty percent (20%) of the asset class, excluding U.S. Treasury Securities and U.S. Government Agency Securities, at time of purchase.

Cash Equivalents Category Guidelines
The following investments are acceptable.

1. Certificates of Deposit. Investments in certificates of deposit in any insured bank or savings institution shall be limited to the FDIC insurance maximum.

2. Commercial Paper. These investments will generally be limited to rating A-1 (or better) by Standard & Poor’s or B-1 (or better) by Moody’s.


4. Local Agency Investment Fund (LAIF) established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law.

5. Money Market Mutual Funds.
Fixed Income Category Guidelines

1. Fixed income securities will be limited to U.S. Treasury or federal agency obligation, State of California obligations or those U.S. corporate bonds with ratings as prescribed below.

2. U.S. corporate bonds with a maximum maturity of ten (10) years and rated a minimum of “A” or its equivalent by a nationally recognized rating (Standard & Poor’s, Moody’s and Fitch) service. No more than forty percent (40%) of the portfolio may be invested in these bonds. In the event a bond is downgraded below the minimum acceptable bond rating, the investment manger may continue to hold such bond until it is deemed advantageous to dispose of the bond, but under no circumstances should it take longer than six (6) months. Approved mutual funds may invest in below investment grade bonds as part of diversified portfolios.

Equity Category Guidelines

1. The equity portfolio should be well-diversified to avoid undue exposure to any single economic sector, industry group or individual security.

2. The holding of one firm’s common stock is not to exceed five percent (5%) of that firm’s total common stock outstanding.

3. The ASC encourages reasonable investment in international securities to enhance diversification and prudent investment. No more than twenty percent (20%) of the equity category is to be invested in international securities. These issues are to possess the same high quality characteristics of domestic securities owned in the portfolio.

Alternative Investments Guidelines

Alternative investments should meet the mission of the ASC, be for the benefit of theASC, be authorized by aASC Board resolution, and be supported by an appropriate and documented “due diligence” analysis. The value of these alternative investments shall be benchmarked against an authorized investment vehicle of the ASC. The total value of all alternative investments shall not exceed five percent (5%) of the portfolio. The alternative investments will diversify and reduce volatility of the portfolio.

ADMINISTRATIVE & REVIEW POLICIES

The primary investment objective is to achieve risk-adjusted real returns necessary to preserve and grow capital and to support the long term spending requirements of the ASC. The ASC Investment Committee and its investment managers must properly balance the following overall objectives:

Responsibility of the Investment Managers

Each investment manager must acknowledge in writing its acceptance of responsibility as a fiduciary. Each investment manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies,
guidelines, constraints and philosophies as outlined in this policy. Specific responsibilities of the investment manager(s) include:

1. Submitting: (a) monthly reports on a timely basis; (b) a quarterly report with investment performance results; and (c) an annual summary report detailing the current portfolio holdings, market value, annualized gain and income from all invested assets, and other information that is customarily on the investment manager’s reporting system.

2. Discretionary investment management including the decision to buy, sell or hold individual securities and to alter asset allocation within the guidelines set by the investment committee.

3. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of the investment process, or the progress, of the Fund’s investment management.

4. Informing the Investment Committee of any qualitative change to investment management organization. Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

**Review of Investment Performance**

Evaluation of the investment manager’s portfolio performance will be on a total return basis. These returns will be viewed in the context of the Fund’s objective and relevant market indices. The investment manager(s) shall meet with the ASC’s Investment Committee or Board of Directors, as requested, at regularly scheduled meetings to present the above detailed information.

**INVESTMENT POLICY REVIEW**

The Investment Committee will review the current portfolio mix at least annually and this investment policy also is to be reviewed at least once every three (3) years to ensure consistency with the overall objectives of the preservation of capital, liquidity and return of the investment portfolio. The investment policy shall also be reviewed to ensure its compliance and relevance to the current law, financial and economic trends and to meet the cash flow requirements of the ASC. The investment portfolio is audited annually by an independent auditor for internal controls and balances.