

INVESTMENT POLICY**1. Policy**

Silicon Valley Clean Energy ("SVCE") shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives of the Policy, in priority order of Safety, Liquidity and Return on investment.

2. Scope

This investment policy applies to all investment activities and financial assets of SVCE.

3. Objective

The primary objectives, in priority order, of the investment activities of SVCE shall be:

a. With respect to all investments:

- i. To be in compliance with all Federal, State and local laws as well as all SVCE policies and procedures.
- ii. All investments of SVCE shall be undertaken in a manner which seeks the preservation of principal.
- iii. To remain sufficiently liquid to enable SVCE to meet all operating requirements which might be reasonably anticipated.
- iv. To maximize return consistent with risk limitations identified herein and prudent investment principles.

b. With respect to short-term Cash Management objectives:

- i. To accelerate receipt of all funds due to SVCE.
- ii. To accurately monitor and forecast expenditures and revenues, thus enabling SVCE to invest funds to the fullest extent possible.
- iii. The investment portfolio shall be designed with the objective of obtaining a rate of return throughout

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budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

4. Standard of Care

SVCE will manage funds in accordance with the Prudent Investor Standard pursuant to California Government Code 53600.3.1. The “prudent investor” standard shall be applied in the context of managing the overall portfolio. Persons authorized to make investment decisions on behalf of SVCE are trustees and therefore fiduciaries subject to the prudent investor standard which states, “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”.

5. Delegation of Authority

The following individuals are authorized to sign investment documents and/or execute cash transfers and make investments of SVCE’s funds:

- a. Chief Executive Officer
- b. Director of Administration and Finance

SVCE may also delegate investment decision making and execution authority to an investment advisor. The advisor shall follow this Investment Policy and such other written instructions as are provided. Investment advisors must be approved by the SVCE Board prior to engaging with SVCE.

6. Ethics and Conflicts of Interest

The authorized employees who are responsible for the investment of SVCE funds shall refrain from personal business activity that could conflict with the proper execution of SVCE’s investment program, or which could impair the ability to make impartial investment decisions.

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Pursuant to SVCE's Conflict of Interest Code, employees shall disclose any financial interests and investment holdings that could affect the performance of SVCE's portfolio or the individual's judgement or decisions regarding SVCE's portfolio.

7. Authorized Financial Dealers and Institutions

The Director of Administration and Finance will maintain a list of approved financial institutions authorized to provide investment services to SVCE. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). A determination should be made to ensure that all approved broker/dealer firms, and individuals covering SVCE, are reputable and trustworthy. In addition, the broker/dealer firms should have the ability to meet all of their financial obligations in dealing with SVCE. The firms, and individuals covering SVCE, should be knowledgeable and experienced in Public Agency investing and the investment products involved. No public deposit shall be made except in a qualified public depository as established by the established state laws. All financial institutions and broker/dealers who desire to conduct investment transactions with SVCE must supply the Director of Administration and Finance with the following: audited financial statements, proof of NASD certification, trading resolution, proof of State of California registration, completed broker/dealer questionnaire, certification of having read the SVCE's investment policy and depository contracts.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Director of Administration and Finance. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which SVCE invests.

If SVCE utilizes an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of SVCE.

8. Authorized and Suitable Investments

SVCE is authorized by California Government Code Section 53600 et

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seq. to invest in the types of securities listed below. A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment.

Where this section specifies a percentage limitation for a particular security type, that percentage is applicable only on the date of purchase. Credit criteria listed in this section refer to the credit rating at the time the security is purchased. If an investment's credit rating falls below the minimum rating required at the time of purchase, the Director of Administration and Finance will perform a timely review and decide whether to sell or hold the investment.

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.

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.

Municipal Obligations; Registered state warrants or treasury notes or bonds of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of California.

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.

Bonds, notes, warrants or other evidence of indebtedness of a local agency within 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.

Bonds issued by SVCE, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by SVCE or by a department, board, agency, or authority of

SVCE.

SVCE is prohibited from investing in any debt issued by member agencies of SVCE who are parties to the SVCE Joint Powers Agreement.

Deposits at Bank(s); FDIC insured or fully collateralized demand deposit accounts, savings accounts, market rate accounts, time certificates of deposits ("TCDs") and other types of bank deposits in financial institutions located in California. The amount on deposit in any financial institution shall not exceed the shareholder's equity. To be eligible to receive SVCE's deposits, the financial institution must have received a minimum overall satisfactory rating, under the Community Redevelopment Act, for meeting the credit needs of California Communities in its most recent evaluation. Bank deposits are required to be collateralized as specified under Government Code Section 53630 et seq. The Director of Administration and Finance, at his/her discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance. SVCE shall have a signed agreement with any depository accepting SVCE's funds per Government Code Section 53649. The maturity of TCDs may not exceed 5 years in maturity. There is no limit on the percentage of the portfolio that may be invested in bank deposits. However, a maximum of 50 percent of the portfolio may be invested in TCDs.

Banks eligible to receive deposits will be federally or state chartered and will conform to Government Code 53635.2.

Placement Service Deposits. Bank deposits placed with a private sector entity that assists in the placement of deposits with eligible financial institutions located in the United States. The full amount of the principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. Placement Deposits shall meet all of the requirements of Government Code Section 53601.8. Purchases of Placement Service CDs may not exceed 50% of SVCE's investment portfolio.

Local Agency Investment Fund (LAIF); Funds may be invested in the Local Agency Investment Fund. The LAIF was established by the California State Treasurer for the benefit of local agencies.

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Commercial Paper; 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 (1) or (2):

- (1) The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation. (B) Has total assets in excess of five hundred million dollars (\$500,000,000). (C) Has debt other than commercial paper, if any, that is rated in a rating category of “A” or its equivalent or higher by an NRSRO.
- (2) The entity meets the following criteria: (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (B) Has program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond. (C) 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. Purchases of eligible commercial paper shall not exceed 40% of SVCE’s funds.

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 better by a nationally recognized statistical rating organization (NRSRO). Purchases of medium-term notes shall not exceed 30% of SVCE’s funds.

Negotiable Certificates of Deposits; Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the California State

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Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposits shall not exceed 30% of the SVCE's funds.

Mortgage Pass-Through and Asset-Backed Securities; A mortgage pass-through security, collateralized mortgage obligation, mortgaged backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 20% of SVCE's funds.

Supranational Obligations; United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or better by an NRSRO and shall not exceed 30% of SVCE's funds.

Joint Power Authority Pool; Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive, of Government Code 53601. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

- 1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
- 2) The adviser has not less than five years of experience investing in

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the securities and obligations authorized in subdivisions (a) to (q), inclusive, of Government Code 53601.

- 3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

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. These funds must either have attained the highest rating/ranking by at least two NRSROs or have retained 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 five hundred million dollars (\$500,000,000).

Investments in this category will not exceed 20% of SVCE's funds and no more than 10% may be invested in any one money market fund.

9. Hedging Program

Staff may examine and recommend to the Board an investment strategy that is consistent with this policy and which will hedge against revenue loss due to high PCIA or increased prices of natural gas commodity.

10. Reporting Requirements

The Director of Administration and Finance shall be responsible for preparing a monthly report of transactions for the Board of Directors, as required by California Government Code 53607.

The Director of Administration and Finance may also prepare an investment report four times a year and the report shall include:

- a. Type of Investment
- b. Institution of Purchase
- c. Date of purchase and maturity
- d. Par and dollar amounts invested

- e. Current market value
- f. Interest rate
- g. Target benchmark
- h. State compliance of the portfolio in accordance with the Policy

11. Investment Pools/Mutual Funds

A thorough investigation of the pool/fund is required prior to investing, and on a regular basis. Best efforts will be made to acquire the following information:

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

12. Collateralization

Collateralization will be required on certificates of deposit. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value for Certificate of Deposits.

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

13. Safekeeping and Custody

All security transactions, entered into by SVCE shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian and evidenced by safekeeping receipts.

14. Diversification

SVCE will diversify its investments by security type and institution. With the exception of U.S. Treasury securities, federal agencies, and authorized pools, no more than 5% of SVCE's total investment portfolio will be invested in a single security type or with a single financial institution

15. Maximum Maturities

To the extent possible, SVCE will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, SVCE will not directly invest in securities maturing more than 5 years from the date of purchase unless the Board of Directors has provided approval at least three months prior to the investment. For purposes of compliance with this section, an investment's term or remaining maturity shall be measured from the settlement date to final maturity. Reserve funds may be invested in securities exceeding 5 years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

16. Internal Controls

The Director of Administration and Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of SVCE are protected from loss, theft, fraud or misuse.

Accordingly, the Director of Administration and Finance shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

17. 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.

SVCE shall establish an appropriate performance benchmark and compare the total return of its portfolio to the total return of the benchmark.

18. Annual Review

The Investment Policy will be reviewed annually. Any changes to the Investment Policy will be submitted to the Board of Directors for approval.