



Policy: GA.3400
Title: **Annual Investments**
Department: Finance
Section: Not Applicable

CEO Approval: /s/ Michael Hunn 12/05/2024

Effective Date: 01/01/2018
Revised Date: **01/01/2025**

Applicable to: Medi-Cal
 OneCare
 PACE
 Administrative

I. PURPOSE

This policy sets forth the investment guidelines for all Operating Funds, Statutory and Board-Designated Reserve Funds of CalOptima Health invested on or after January 10, 2006, to ensure CalOptima Health's funds are prudently invested according to the Board of Directors objectives and the California Government Code to preserve Capital, provide necessary Liquidity, and achieve a market-average Rate of Return through Economic Cycles. Each annual review takes effect upon its adoption by the Board of Directors.

II. POLICY

A. CalOptima Health investments may only be made as authorized by this Policy.

1. This Policy shall conform to California Government Code, Section 53600 et seq. (hereinafter, the Code) as well as customary standards of prudent investment management. Should the provisions of the Code be, or become, more restrictive than those contained herein, such provisions shall be considered immediately incorporated into this Policy and adhered to.
2. Safety of Principal: Safety of Principal is the primary objective of CalOptima Health and, as such, each investment transaction shall seek to ensure that large Capital losses are avoided from securities or Broker-Dealer default.
 - a. CalOptima Health shall seek to ensure that Capital losses are minimized from the erosion of market value and preserve principal by mitigating the two (2) types of Risk: Credit Risk and Market Risk.
 - i. Credit Risk shall be mitigated by investing in only permitted investments and by diversifying the Investment Portfolio, in accordance with this Policy.
 - ii. Market Risk shall be mitigated by matching Maturity Dates, to the extent possible, with CalOptima Health's expected cash flow needs and other factors.
 - b. It is explicitly recognized herein, however, that in a diversified portfolio, occasional losses are inevitable and must be considered within the context of the overall investment return.
3. Liquidity: Liquidity is the second most important objective of CalOptima Health. It is important that each portfolio contain investments for which there is a secondary market, and which offer

the flexibility to be easily sold at any time with minimal Risk of loss of either the principal or interest based upon then prevailing rates.

4. Total Return: CalOptima Health's Investment Portfolios shall be designed to attain a market-average Rate of Return through Economic Cycles given an acceptable level of Risk, established by the Board of Directors' and the CalOptima Health Treasurer's objectives.
 - a. The performance Benchmark for each Investment Portfolio shall be based upon published Market Indices as primary Benchmark, and Custom Peer Group Reports, as necessary, for short-term investments of comparable Risk and duration.
 - i. These performance Benchmarks shall be reviewed monthly by CalOptima Health staff, and quarterly by CalOptima Health's Treasurer and the Investment Advisory Committee members and shall be reported to the Board of Directors.
- B. The investments purchased by an Investment Manager shall be held by the Custodian Bank acting as the agent of CalOptima Health under the terms of a custody agreement in compliance with California Government Code, Section 53608.
- C. Investment Managers must certify that they will purchase securities from Broker-Dealers (other than themselves) or financial institutions in compliance with California Government Code, Section 53601.5 and this Policy.
- D. The Board of Directors, or persons authorized to make investment decisions on behalf of CalOptima Health (e.g., Chief Officers), are trustees and fiduciaries subject to the Prudent Person Standard, as defined in the Code, which shall be applied in the context of managing an overall portfolio.
- E. CalOptima Health's Officers, employees, Board members, and Investment Advisory Committee members involved in the investment process shall refrain from personal and professional business activities that could conflict with the proper execution of the investment program, or which could impair their ability to fulfill their roles in the investment process.
 1. CalOptima Health's Officers and employees involved in the investment process are not permitted to have any material financial interests in financial institutions, including state or federal credit unions, that conduct business with CalOptima Health, and are not permitted to have any personal financial, or investment holdings, that could be materially related to the performance of CalOptima Health's investments.
- F. On an annual basis, CalOptima Health's Treasurer shall provide the Board of Directors with this Policy for review and adoption by the Board, to ensure that all investments made follow this Policy.
 1. This Policy shall be reviewed annually by the Board of Directors at a public meeting pursuant to California Government Code, Section 53646, Subdivision (a).
 2. This policy may only be changed by the Board of Directors.

III. PROCEDURE

A. Delegation of Authority

1. The Authority to manage CalOptima Health's investment program is derived from an order of the Board of Directors.

- a. Management responsibility for the investment program shall be delegated to CalOptima Health's Treasurer, as appointed by the Board of Directors, for a one (1)-year period following the approval of this Policy.
 - i. The Board of Directors may renew the delegation of authority annually.
- b. No person may engage in investment transactions except as provided under the terms of this Policy and the procedures established by CalOptima Health's Treasurer.

B. CalOptima Health Treasurer Responsibilities

- 1. The Treasurer shall be responsible for:
 - a. All actions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and Board-approved Investment Managers;
 - b. The oversight of CalOptima Health's Investment Portfolio;
 - c. Directing CalOptima Health's investment program and for compliance with this Policy pursuant to the delegation of authority to invest funds or to sell or exchange securities; and
 - d. Providing a quarterly report to the Board of Directors in accordance with California Government Code, Section 53646, Subdivision (b).
- 2. The Treasurer shall also be responsible for ensuring that:
 - a. The Operating Funds, Statutory and Board-Designated Reserve Funds targeted average maturities are established and reviewed monthly.
 - b. All Investment Managers are provided a copy of this Policy, which shall be appended to an Investment Manager's investment contract.
 - i. Any investments made by an Investment Manager outside this Policy may subject the Investment Manager to termination for cause or other appropriate remedies or sanctions, as determined by the Board of Directors.
 - c. Investment diversification and portfolio performance is reviewed monthly to ensure that Risk levels and returns are reasonable and that investments are diversified in accordance with this Policy.
 - d. All Investment Managers are selected and evaluated for review by the Chief Executive Officer and the Board of Directors.

C. Investment Advisory Committee

- 1. The Investment Advisory Committee shall not make, or direct, CalOptima Health staff to make any particular investment, purchase any particular investment product, or conduct business with any particular investment companies, or brokers.
 - a. It shall not be the purpose of the Investment Advisory Committee to advise on particular investment decisions of CalOptima Health.
- 2. The Investment Advisory Committee shall be responsible for the following functions:

- a. Annual review of this Policy before its consideration by the Board of Directors and revision recommendations, as necessary, to the Finance and Audit Committee of the Board of Directors.
- b. Quarterly review of CalOptima Health's Investment Portfolio for conformance with this Policy's diversification and maturity guidelines, and recommendations to the Finance and Audit Committee of the Board of Directors, as appropriate.
- c. Provision of comments to CalOptima Health's staff regarding potential investments and potential investment strategies.
- d. Performance of such additional duties and responsibilities pertaining to CalOptima Health's investment program as may be required from time to time by specific action and direction of the Board of Directors.

D. Permitted Investments

1. CalOptima Health shall invest only in Instruments as permitted by the Code, subject to the limitations of this Policy.
 - a. Permitted investments under the Operating Funds, unless otherwise specified, are subject to a maximum stated term of three (3) years. Note that the Code allows for up to five (5) years.
 - b. Permitted investments under the Statutory and Board-Designated Reserve Funds, unless otherwise specified, are subject to a maximum stated term of five (5) years. Note that the Code allows for up to five (5) years.
 - c. The Board of Directors must grant express written authority to make an investment, or to establish an investment program, of a longer term.
2. Permitted investments shall include:
 - a. U.S. Treasuries
 - i. These investments are direct obligations of the United States of America and securities which are fully and unconditionally guaranteed as to the timely payment of principal and interest by the full faith and credit of the United States of America.
 - ii. U.S. Government securities include:
 - a) Treasury Bills: U.S. Government securities issued and traded at a discount;
 - b) Treasury Notes and Bonds: Interest bearing debt obligations of the U.S. Government which guarantees interest and principal payments;
 - c) Treasury Separate Trading of Registered Interest and Principal Securities (STRIPS): U.S. Treasury securities that have been separated into their component parts of principal and interest payments and recorded as such in the Federal Reserve book-entry record-keeping system;
 - d) Treasury Inflation Protected (TIPs) securities: Special U.S. Treasury notes, or Bonds, that offer protection from Inflation. Coupon payments and underlying

principal are automatically increased to compensate for Inflation, as measured by the Consumer Price Index (CPI); and

- e) Treasury Floating Rate Notes (FRNs): U.S. Treasury Bonds issued with a variable coupon.
- iii. U.S. Treasury coupon and principal STRIPS, as well as TIPs, are not considered to be derivatives for the purposes of this Policy and are, therefore, permitted investments pursuant to this Policy.
- iv. Maximum Term:

| Fund Type | Term Assigned | Term Allowed by the Code |
|--|----------------------|---------------------------------|
| Operating Funds | 3 years | 5 years |
| Statutory and Board-Designated Reserve Funds | 5 years | 5 years |
| ▪ Tier One (1) | 5 years | 5 years |
| ▪ Tier Two (2) | | |

- b. Federal Agencies and U.S. Government Sponsored Enterprises
 - i. These investments represent obligations, participations, or other Instruments of, or issued by, a federal agency or a U.S. government sponsored enterprise, including those issued by, or fully guaranteed as to principal and interest by, the issuers.
 - ii. These are U.S. Government related organizations, the largest of which are government financial intermediaries assisting specific credit markets (e.g., housing, agriculture). Often simply referred to as "Agencies," the following are specifically allowed:
 - a) Federal Home Loan Banks (FHLB);
 - b) Federal Home Loan Mortgage Corporation (FHLMC);
 - c) Federal National Mortgage Association (FNMA);
 - d) Federal Farm Credit Banks (FFCB);
 - e) Government National Mortgage Association (GNMA);
 - f) Small Business Administration (SBA);
 - g) Export-Import Bank of the United States;
 - h) U.S. Maritime Administration;
 - i) Washington Metro Area Transit Authority (WMATA);
 - j) U.S. Department of Housing & Urban Development;
 - k) Tennessee Valley Authority;
 - l) Federal Agricultural Mortgage Company (FAMC);

m) Federal Deposit Insurance Corporation (FDIC)-backed Structured Sale Guaranteed Notes (SSGNs); and

n) National Credit Union Administration (NCUA) securities.

iii. Maximum Term:

| Fund Type | Term Assigned | Term Allowed by the Code |
|--|----------------------|---------------------------------|
| Operating Funds | 3 years | 5 years |
| Statutory and Board-Designated Reserve Funds | 5 years | 5 years |
| ▪ Tier One (1) | 5 years | 5 years |
| ▪ Tier Two (2) | | |

iv. Any Federal Agency and U.S. Government Sponsored Enterprise security not specifically mentioned above is not a permitted investment.

c. State and California Local Agency Obligations

i. Such obligations must be issued by an entity whose general obligation debt is rated P-1 by Moody's, or A-1 by Standard & Poor's, or Rated F1 by Fitch, or equivalent or better for short-term obligations, or an "A-" rating or its equivalent or better by a Nationally Recognized Statistical Rating Organization (NRSRO) for long-term obligations. Public agency Bonds issued for private purposes (e.g., industrial development Bonds) are specifically excluded as permitted investments.

ii. Maximum Term:

| Fund Type | Term Assigned | Term Allowed by the Code |
|--|----------------------|---------------------------------|
| Operating Funds | 3 years | 5 years |
| Statutory and Board-Designated Reserve Funds | 5 years | 5 years |
| ▪ Tier One (1) | 5 years | 5 years |
| ▪ Tier Two (2) | | |

d. Banker's Acceptances

i. Time drafts which a bank "accepts" as its financial responsibility as part of a trade finance process. These short-term notes are sold at a discount, and are obligations of the drawer (i.e., the bank's trade finance client) as well as the bank. Once accepted, the bank is irrevocably obligated to pay the Banker's Acceptance (BA) upon maturity, if the drawer does not. Eligible banker's acceptances:

a) Are eligible for purchase by the Federal Reserve System and are drawn on and accepted by a bank rated F1, or better, by Fitch Ratings Service, or are rated A-1 for short-term deposits by Standard & Poor's, or P-1 for short-term deposits by Moody's, or are comparably rated by a NRSRO.

ii. Maximum Term:

| Fund Type | Term Assigned | Term Allowed by the Code |
|------------------|----------------------|---------------------------------|
| Operating Funds | 180 days | 180 days |

| Fund Type | Term Assigned | Term Allowed by the Code |
|--|----------------------|---------------------------------|
| Statutory and Board-Designated Reserve Funds | 180 days | 180 days |
| ▪ Tier One (1) | 180 days | 180 days |
| ▪ Tier Two (2) | | |

e. Commercial Paper (CP)

- i. CP is negotiable (i.e., marketable or transferable), although it is typically held to maturity. The maximum maturity is two hundred seventy (270) days, with most CP issued for terms of less than thirty (30) days. CP must meet the following criteria:
- a) CP of “prime” quality, rated F1, or better, by Fitch Ratings Service, or are rated A-1 for short-term deposits by Standard & Poor’s, or P-1 for short-term by Moody’s, or are comparably rated by a NRSRO;
 - b) The entity that issues the CP 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 a 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 a NRSRO; and
 - c) May not represent more than ten percent (10%) of the outstanding CP of the issuing corporation.

ii. Maximum Term:

| Fund Type | Term Assigned | Term Allowed by the Code |
|--|----------------------|---------------------------------|
| Operating Funds | 270 days | 270 days |
| Statutory and Board-Designated Reserve Funds | 270 days | 270 days |
| ▪ Tier One (1) | 270 days | 270 days |
| ▪ Tier Two (2) | | |

f. Negotiable Certificates of Deposit

- i. Negotiable Certificates of Deposit must be issued by a Nationally- or state-chartered bank, or state or federal association or by a state licensed branch of a foreign bank, which have been rated F1 or better, by Fitch Ratings Service, or are rated A-1 for short-term deposits by Standard & Poor's and P-1 for short-term deposits by Moody's or are comparably rated by a NRSRO.

ii. Maximum Term:

| Fund Type | Term Assigned | Term Allowed by the Code |
|--|----------------------|---------------------------------|
| Operating Funds | 1 year | 5 years |
| Statutory and Board-Designated Reserve Funds | 1 year | 5 years |
| ▪ Tier One (1) | 1 year | 5 years |
| ▪ Tier Two (2) | | |

g. Repurchase Agreements

- i. U.S. Treasury and U.S. Agency Repurchase Agreements collateralized by the U.S. Government may be purchased through any registered primary Broker-Dealer subject to the Securities Investors Protection Act, or any commercial bank insured by the Federal Deposit Insurance Corporation so long as at the time of the investment, such primary dealer (or its parent) has an uninsured, unsecured, and unguaranteed obligation rated P-1 short-term, or A-2 long-term, or better, by Moody's, and A-1 short-term, or A long-term, or better, by Standard & Poor's, and F1 short-term, or A long-term or better by Fitch Ratings Service provided:

- a) A Broker-Dealer master repurchase agreement signed by the Investment Manager (acting as "Agent") and approved by CalOptima Health;
- b) The securities are held free and clear of any Lien by CalOptima Health's custodian or an independent third party acting as agent ("Agent") for the custodian, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined Capital, Surplus and undivided profits of not less than fifty million dollars (\$50,000,000) and the custodian receives written confirmation from such third party that it holds such securities, free and clear of any Lien, as agent for CalOptima Health's custodian;
- c) A perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at Title 31, Code of Federal Regulations, Section 306.1 et seq., and such securities are created for the benefit of CalOptima Health's custodian and CalOptima Health; and
- d) The Agent will notify CalOptima Health's custodian and CalOptima Health if the Valuation of the Collateral Securities falls outside of policy. Upon direction by the CalOptima Health Treasurer, the Agent will liquidate the Collateral Securities if any deficiency in the required one hundred and two percent (102%) collateral percentage is not restored within one (1) business day of such Valuation.

ii. Maximum Term:

| Fund Type | Term Assigned | Term Allowed by the Code |
|------------------|----------------------|---------------------------------|
| Operating Funds | 30 days | 1 year |

| Fund Type | Term Assigned | Term Allowed by the Code |
|--|----------------------|---------------------------------|
| Statutory and Board-Designated Reserve Funds | 30 days | 1 year |
| ▪ Tier One (1) | 30 days | 1 year |
| ▪ Tier Two (2) | | |

iii. Reverse Repurchase Agreements are not allowed.

h. Corporate Securities

- i. For the purpose of this Policy, permissible Corporate Securities shall be rated in a Rating Category of “A” or its equivalent or better by a NRSRO and:
 - a) Be issued by corporations organized and operating within the U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S. and have total assets in excess of five hundred million dollars (\$500,000,000), and
 - b) May not represent more than ten percent (10%) of the issue in the case of a specific public offering. This limitation does not apply to debt that is "continuously offered" in a mode similar to CP, i.e., Medium Term Notes (MTNs).

ii. Maximum Term:

| Fund Type | Term Assigned | Term Allowed by the Code |
|--|----------------------|---------------------------------|
| Operating Funds | 3 years | 5 years |
| Statutory and Board-Designated Reserve Funds | 5 years | 5 years |
| ▪ Tier One (1) | 5 years | 5 years |
| ▪ Tier Two (2) | | |

i. Money Market Funds

- i. Shares of beneficial interest issued by diversified management companies (i.e., money market funds):
 - a) Which have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) of the three (3) NRSROs (AAAm by Standard & Poor’s, Aaa-mf – Moody’s Investors Service, and AAA/mmF – Fitch Ratings); and
 - b) Such investment may not represent more than ten percent (10%) of the money market fund's assets.

j. Joint Powers Authority Pool

- i. A joint powers authority formed pursuant to California Government Code; Section 6509.7 may issue shares of beneficial interest to participating public agencies. The joint powers authority issuing the shares shall have retained an Investment Advisor that meets all of the following criteria:
 - a) Registered or exempt from registration with the Securities and Exchange Commission;

- b) No less than five (5) years of experience investing in the securities and obligations authorized in the Code; and
- c) Assets under management in excess of five hundred million dollars (\$500,000,000).
- ii. A Joint Powers Authority Pool shall be rated AAA (or equivalent highest ranking) by two (2) of the three (3) largest NRSROs.
- iii. Such an investment may not represent more than ten percent (10%) of the Joint Powers Authority Pool's assets.
- iv. Maximum Term:

| Fund Type | Term Assigned | Term Allowed by the Code |
|--|----------------------|---------------------------------|
| Operating Funds | Not Applicable | Not Applicable |
| Statutory and Board-Designated Reserve Funds | Not Applicable | Not Applicable |
| ▪ Tier One (1) | Not Applicable | Not Applicable |
| ▪ Tier Two (2) | Not Applicable | Not Applicable |

k. Mortgage or Asset-backed Securities

- i. Pass-through securities are Instruments by which the cash flow from the mortgages, receivables, or other assets underlying the security, is passed-through as principal and interest payments to the investor.
- ii. Though these securities may contain a third-party guarantee, they are a package of assets being sold by a trust, not a debt obligation of the sponsor. Other types of "backed" debt Instruments have assets (e.g., leases or consumer receivables) pledged to support the debt service.
- iii. Any mortgage pass-through security, collateralized mortgage obligations, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond which:
 - a) Are rated AA or its equivalent or better by a NRSRO.
- iv. Are not issued or guaranteed by Federal Agencies and U.S. Government Sponsored Agencies.
- v. Maximum Term:

| Fund Type | Term Assigned | Term Allowed by the Code |
|--|----------------------|---------------------------------|
| Operating Funds | 3 years | 5 years |
| Statutory and Board-Designated Reserve Funds | 5 years | 5 years |
| ▪ Tier One (1) | 5 years | 5 years |
| ▪ Tier Two (2) | 5 years | 5 years |

l. Variable and Floating Rate Securities

- i. Variable and floating rate securities are appropriate investments when used to enhance yield and reduce Risk.

- a) They should have the same stability, Liquidity, and quality as comparable fixed rate securities.
 - b) A variable rate security provides for the automatic establishment of a new interest rate on pre-determined reset dates.
 - c) For the purposes of this Policy, a variable rate security and floating rate security shall be deemed to have a maturity equal to the period remaining to that pre-determined interest rate reset date, so long as no investment shall be made in a security that at the time of the investment has a term remaining to a stated final maturity in excess of five (5) years.
- ii. Variable and floating rate securities, which are restricted to investments in permitted Federal Agencies and U.S. Government Sponsored Enterprises securities, Corporate Securities, Mortgage or Asset-backed Securities, Negotiable Certificates of Deposit, and Municipal Bonds (State and California Local Agency Obligations) must utilize a single, market-determined short-term index rate, such as U. S. Treasury bills, federal funds, CP, London Interbank Offered Rate (LIBOR), the Secured Overnight Financing Rate (SOFR), or Securities Industry and Financial Markets Association (SIFMA) that is pre-determined at the time of issuance of the security.
- a) Permitted variable and floating rate securities that have an embedded unconditional put option must have a stated final maturity of the security no greater than five (5) years.
 - b) Investments in floating rate securities whose reset is calculated using more than one (1) of the above indices are not permitted, i.e., dual index notes.
 - c) Ratings for variable and floating rate securities shall be limited to the same minimum ratings as applied to the appropriate asset security class outlined elsewhere in this Policy.

iii. Maximum Term:

| Fund Type | Term Assigned | Term Allowed by the Code |
|--|----------------------|---------------------------------|
| Operating Funds | 3 years | 5 years |
| Statutory and Board-Designated Reserve Funds | 5 years | 5 years |
| ▪ Tier One (1) | 5 years | 5 years |
| ▪ Tier Two (2) | | |

m. Supranational Obligations

- i. The three (3) Supranational Institutions that issue, or unconditionally guarantee, obligations that are eligible investments are:
 - a) International Bank for Reconstruction and Development (IBRD);
 - b) International Finance Corporation (IFC);
 - c) Inter-American Development Bank (IADB);

- ii. Supranational obligations shall be rated in a Rating Category of “AA” or its equivalent or better by a NRSRO.
- iii. Maximum Term:

| Fund Type | Term Assigned | Term Allowed by the Code |
|--|----------------------|---------------------------------|
| Operating Funds | 3 years | 5 years |
| Statutory and Board-Designated Reserve Funds | 5 years | 5 years |
| ▪ Tier One (1) | 5 years | 5 years |
| ▪ Tier Two (2) | | |

n. Pooled Investments

- i. Pooled investments include deposits, or investments pooled with those of other local agencies consistent with the requirements of California Government Code, Section 53635 et seq. Such pools may contain a variety of investments but are limited to those permissible under the Code.

E. Diversification Guidelines

1. Diversification guidelines ensure the portfolio is not unduly concentrated in the securities of one (1) type, industry, or entity, thereby assuring adequate portfolio Liquidity should one (1) sector or company experience difficulties.
2. CalOptima Health’s Investment Managers must review the respective portfolios they manage to ensure compliance with CalOptima Health’s diversification guidelines on a continuous basis.
3. *Table 1: Maximum Percentage (%) of Investment Portfolio, by Instrument Type*

| INSTRUMENTS | MAXIMUM % OF PORTFOLIO AT TIME OF PURCHASE |
|--|---|
| A. U.S. Treasuries (including U.S. Treasury Coupon and principal STRIPS as well as TIPS) | 100% (Code) |
| B. Federal Agencies and U.S. Government Sponsored Enterprises | 100% (Code) |
| C. State and California Local Agency Obligations | 40% (Code 100%) |
| D. Bankers Acceptances | 30% (Code 40%) |
| E. Commercial Paper | 30% (Code 40% ¹) |
| F. Negotiable Certificates of Deposit | 30% (Code) |
| G. Repurchase Agreements | 100% (Code) |
| H. Corporate Securities | 30% (Code) |
| I. Money Market Funds | 20% (Code) |
| J. Joint Powers Authority Pool | 100% (Code) |
| K. Mortgage or Asset-backed Securities | 20% (Code) |
| L. Variable and Floating Rate Securities | 30% (Code) |
| M. Supranational Obligations | 30% (Code) |

¹ The Code allows up to 40% for Pooled Funds and Non-Pooled Funds with a minimum \$100,000,000 of investments. The Maximum Allocation is limited to 25% for Non-Pooled Funds with under \$100,000,000 of investments.

4. Issuer or Counterparty Diversification Guidelines: The percentages specified below shall be adhered to on the basis of the entire portfolio:
 - a. Any one (1) Federal Agency or Government Sponsored Enterprise: None
 - b. Any one (1) repurchase agreement counterparty name:
 - If maturity/term is \leq 7 days: 50%
 - If maturity/term is $>$ 7 days: 25%
5. Issuer or Counterparty Diversification Guidelines for all other permitted investments described in Section III.D.2.a-n. of this Policy.
 - a. Any one (1) corporation, bank, local agency, or other corporate name for one (1) or more series of securities, and specifically with respect to special purpose vehicles issuers for mortgage or asset-backed securities, the maximum issuer limits apply at the deal level with each securitized trust being considered a unique “issuer.”
 - b. Except for U.S. Government or Agency securities, no more than five percent (5%) of the Portfolio’s market value will be invested in securities of a single issuer.
6. Each Investment Manager shall adhere to the diversification limits discussed in this subsection.
 - a. If an Investment Manager exceeds the aforementioned diversification limits, the Investment Manager shall inform CalOptima Health's Treasurer and Investment Advisory consultant (if any) by close of business on the day of the occurrence.
 - b. Within the parameters authorized by the Code, the Investment Advisory Committee recognizes the practicalities of portfolio management, securities maturing and changing status, and market volatility, and, as such, will consider breaches in the context of.
 - i. The amount in relation to the total portfolio concentration;
 - ii. Market and security specific conditions contributing to a breach of this Policy; and
 - iii. The Investment Managers’ actions to enforce the spirit of this Policy and decisions made in the best interest of the portfolio.

F. Maximum Stated Term

1. Maximum stated terms for permitted investments shall be determined based on the settlement date (not the trade date) upon purchase of the security and the stated final maturity of the security. Any forward settlement that exceeds 45 days from the time of investment is prohibited.

G. Rating Downgrades

1. CalOptima Health may from time to time be invested in a security whose rating is downgraded below the quality criteria permitted by this Policy.
2. If the rating of any security held as an investment falls below the investment guidelines, the Investment Manager shall notify CalOptima Health's Treasurer, or Designee, within two (2) business days of the downgrade.

- a. A decision to retain a downgraded security shall be approved by CalOptima Health's Treasurer, or Designee, within five (5) business days of the downgrade.

H. Investment Restrictions

1. Investment securities shall not be lent to an Investment Manager, or Broker-Dealer.
2. The Investment Portfolio or Investment Portfolios, managed by an Investment Manager, shall not be used as collateral to obtain additional investable funds.
3. Any investment not specifically referred to herein shall be considered a prohibited investment.
4. CalOptima Health reserves the right to prohibit its Investment Managers from making investments in organizations which have a line of business that conflicts with the interests of public health, as determined by the Board of Directors.
5. CalOptima Health reserves the right to prohibit investments in organizations with which it has a business relationship through contracting, purchasing, or other arrangements.
6. Except as expressly permitted by this Policy, investments in derivative securities shall not be allowed.
7. A list of prohibited investments does not currently exist, however, the Board of Directors shall provide CalOptima Health's Treasurer, Investment Managers, Investment Advisory consultant, and Investment Advisory Committee with a list, should such a list be adopted by CalOptima Health in the future, of organizations that do not comply with this Policy and shall immediately notify CalOptima Health's Treasurer, Investment Managers, Investment Advisory consultant and Investment Advisory Committee of any changes.

IV. ATTACHMENT(S)

Not Applicable

V. REFERENCE(S)

- A. California Government Code, §53600 et seq.
- B. California Government Code, §53601(h), (k), (q)
- C. California Government Code, §53635 et seq.
- D. California Government Code, §53646, Subdivision (a) and Subdivision (b)
- E. California Government Code, §6509.7
- F. California Government Code, §16430(m)
- G. Title 31, Code of Federal Regulations (C.F.R.), §306.1 et seq.

VI. REGULATORY AGENCY APPROVAL(S)

None to Date

VII. BOARD ACTION(S)

| Date | Meeting |
|-------------|--|
| 10/30/2017 | Special Meeting of the CalOptima Investment Advisory Committee |
| 11/16/2017 | Regular Meeting of the CalOptima Finance and Audit Committee |

| Date | Meeting |
|-------------|---|
| 12/07/2017 | Regular Meeting of the CalOptima Board of Directors |
| 11/05/2018 | Special Meeting of the CalOptima Investment Advisory Committee |
| 11/15/2018 | Regular Meeting of the CalOptima Finance and Audit Committee |
| 12/06/2018 | Regular Meeting of the CalOptima Board of Directors |
| 10/21/2019 | Regular Meeting of the CalOptima Investment Advisory Committee |
| 11/15/2019 | Regular Meeting of the CalOptima Finance and Audit Committee |
| 12/05/2019 | Regular Meeting of the CalOptima Board of Directors |
| 06/04/2020 | Regular Meeting of the CalOptima Board of Directors |
| 10/19/2020 | Regular Meeting of the CalOptima Investment Advisory Committee |
| 11/19/2020 | Regular Meeting of the CalOptima Finance and Audit Committee |
| 12/03/2020 | Regular Meeting of the CalOptima Board of Directors |
| 10/25/2021 | Regular Meeting of the CalOptima Investment Advisory Committee |
| 11/18/2021 | Regular Meeting of the CalOptima Finance and Audit Committee |
| 12/20/2021 | Special Meeting of the CalOptima Board of Directors |
| 10/24/2022 | Regular Meeting of the CalOptima Health Investment Advisory Committee |
| 11/17/2022 | Regular Meeting of the CalOptima Health Finance and Audit Committee |
| 12/01/2022 | Regular Meeting of the CalOptima Health Board of Directors |
| 10/23/2023 | Regular Meeting of the CalOptima Health Investment Advisory Committee |
| 11/16/2023 | Regular Meeting of the CalOptima Health Finance and Audit Committee |
| 12/07/2023 | Regular Meeting of the CalOptima Health Board of Directors |
| 12/05/2024 | Regular Meeting of the CalOptima Health Board of Directors |

VIII. REVISION HISTORY

| Action | Date | Policy | Policy Title | Program(s) |
|---------------|-------------|---------------|---------------------|-------------------|
| Effective | 01/01/2018 | GA.3400 | Annual Investments | Administrative |
| Revised | 01/01/2019 | GA.3400 | Annual Investments | Administrative |
| Revised | 01/01/2020 | GA.3400 | Annual Investments | Administrative |
| Revised | 06/04/2020 | GA.3400 | Annual Investments | Administrative |
| Revised | 01/01/2021 | GA.3400 | Annual Investments | Administrative |
| Revised | 01/01/2022 | GA.3400 | Annual Investments | Administrative |
| Revised | 01/01/2023 | GA.3400 | Annual Investments | Administrative |
| Revised | 01/01/2024 | GA.3400 | Annual Investments | Administrative |
| Revised | 01/01/2025 | GA.3400 | Annual Investments | Administrative |

IX. GLOSSARY

| Term | Definition |
|----------------------------|---|
| Banker's Acceptance (BA) | Time drafts which a bank "accepts" as its financial responsibility as part of a trade finance process. These short-term notes are sold at a discount, and are obligations of the drawer (i.e., the bank's trade finance client) as well as the bank. Once accepted, the bank is irrevocably obligated to pay the banker's acceptance (BA) upon maturity, if the drawer does not. Eligible banker's acceptances: <ol style="list-style-type: none"> 1. Are eligible for purchase by the Federal Reserve System, and are drawn on and accepted by a bank rated F1, or better, by Fitch Ratings Service, or are rated A-1 for short-term deposits by Standard & Poor's, or P-1 for short-term deposits by Moody's, or are comparably rated by a nationally recognized rating agency; and 2. May not exceed the five percent (5%) limit of any one (1) commercial bank and may not exceed the five percent (5%) limit for any security of any bank. |
| Benchmark | Benchmarks are usually constructed using unmanaged indices, exchange-traded Funds or mutual fund categories to represent each asset class. Benchmarks are often used as a tool to assess the allocation, Risk and return of a portfolio. |
| Bonds | A debt security, under which the issuer owes the holders a debt and, depending on the terms of the bond, is obliged to pay them interest (the coupon) and/or to repay the principal at a later date, termed the maturity date. |
| Broker-Dealer | In financial services, a Broker-Dealer is a natural person, a company or other organization that engages in the business of trading securities for its own account or on behalf of its customers. |
| CalOptima Health Treasurer | Appointed by CalOptima Health's Board of Directors, the treasurer is a person responsible for overseeing CalOptima Health's investment funds. |
| Capital | Capital refers to financial assets or the financial value of assets, in the form of money or other assets owned by an organization. |
| Cash Flow Draws | Amount of cash needs to support CalOptima Health business operation. |
| Chief Officers | For the purposes of this policy, may include, but is not limited to, the Chief Executive Officer (CEO), Chief Financial Officer (CFO), and/or Chief Counsel. |
| Collateral Securities | A security given in addition to the direct security, and subordinate to it, intended to guarantee its validity or convertibility or insure its performance; so that, if the direct security fails, the creditor may fall back upon the collateral security. |
| Commercial Paper (CP) | Unsecured promissory notes issued by companies and government entities at a discount. |
| Consumer Price Index (CPI) | The Consumer Price Indexes (CPI) program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services. |
| Corporate Securities | Notes issued by corporations organized and operating within the U.S. or by depository institutions licensed by the U.S. or any state, and operating within the U.S. |
| Credit Risk | The Risk of loss due to failure of the issuer of a security. |

| Term | Definition |
|-------------------------------------|---|
| Custodian Bank | A specialized financial institution responsible for safeguarding a firm's or individual's financial assets and is not engaged in "traditional" commercial or consumer/retail banking such as mortgage or personal lending, branch banking, personal accounts, automated teller machines (ATMs) and so forth. |
| Custom Peer Group Report | Developed based on a small peer universe with similar investment guidelines. The Purpose of the report is to provide more accurate performance comparison. |
| Designee | For purposes of this policy, a person who has been designated to act on behalf of the CalOptima Health Treasurer. |
| Economic Cycles | The natural fluctuation of the economy between periods of expansion (growth) and contraction (recession). |
| Finance and Audit Committee (FAC) | A standing committee of the CalOptima Health Board of Directors with oversight responsibilities for all financial matters of CalOptima Health including but not limited to: budget development and approval, financial reporting, investment practices and policies, purchasing and procurement practices and policies, insurance issues, and capitation and claims. The Committee serves as the primary level of Board review for any finance-related issues or policies affecting the CalOptima Health program. |
| Inflation | Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling. |
| Instrument | Refers to a financial Instrument or asset that can be traded. These assets can be cash, Bonds, or shares in a company |
| Investment Advisor(s) | Registered or non-registered person or group that makes investment recommendations or conducts securities analysis in return for a fee. |
| Investment Advisory Committee (IAC) | A standing committee of the CalOptima Health Board of Directors who provide advice and recommendations regarding CalOptima Health's Investment Policies, Procedures and Practices. |
| Investment Manager(s) | A person or organization that makes investments in portfolios of securities on behalf of clients, in accordance with the investment objectives and parameters defined by these clients. |
| Investment Portfolio | A grouping of financial assets such as stocks, Bonds and cash equivalents, as well as their funds counterparts, including mutual, exchange-traded and closed funds. Portfolios are held directly by investors and/or managed by financial professionals. |
| Joint Powers Authority Pool | Shares of beneficial interest issued by a joint powers authority organized pursuant to California Government Code, Section 6509.7; each share represents an equal proportional interest in the Underlying Pool of Securities owned by the joint powers authority. |
| Lien | A legal right granted by the owner of property, by a law or otherwise acquired by a creditor |
| Liquidity | Liquidity describes the degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price. |
| Market Indices | Measurements of the value of a section of the stock market. It is computed from the prices of selected stocks (typically a weighted average). |
| Market Risk | The Risk of market value fluctuations due to overall changes in the general level of interest rates. |
| Maturity Dates | The date on which the principal amount of a note, draft, acceptance bond or another debt Instrument becomes due and is repaid to the investor and interest payments stop. It is also the termination or due date on which an installment loan must be paid in full. |

| Term | Definition |
|--|--|
| Medium Term Notes (MTN) | A debt note that usually matures (is paid back) in five (5) – ten (10) years, but the term may be less than one (1) year or as long as one hundred (100) years. They can be issued on a fixed or floating coupon basis. |
| Nationally Recognized Statistical Ratings Organization (NRSRO) | A credit rating agency that the Securities and Exchange Commission in the United States registers and uses for regulatory purposes. Current NRSROs listed at www.sec.gov/ocr/ocr-current-nrsros.html . |
| Negotiable Certificates of Deposit | A negotiable (i.e., marketable or transferable) receipt for a time deposit at a bank or other financial institution, for a fixed time and interest rate. |
| Operating Funds | Funds intended to serve as a money market account for CalOptima Health to meet daily operating requirements. Deposits to this fund are comprised of State warrants that represent CalOptima Health’s monthly capitation revenues from its State contracts. Disbursements from this fund to CalOptima Health’s operating cash accounts are intended to meet operating expenses, payments to providers and other payments required in day-to-day operations. |
| Prudent Person 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 (California Government Code, Section 53600.3) |
| Rate of Return | The gain or loss on an investment over a specified time period, expressed as a percentage of the investment's cost. Gains on investments are defined as income received plus any Capital gains realized on the sale of the investment. |
| Rating Category | With respect to any long-term category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier. |
| Repurchase Agreements | A purchase of securities under a simultaneous agreement to sell these securities back at a fixed price on some future date. |
| Risk | Investment Risk can be defined as the probability or likelihood of occurrence of losses relative to the expected return on any particular investment. Description: Stating simply, it is a measure of the level of uncertainty of achieving the returns as per the expectations of the investor. |
| State and California Local Agency Obligations | Registered warrants, notes or Bonds of any of the fifty (50) U.S. states, 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 fifty (50) U.S. states. Additionally, Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California, including Bonds payable solely out of revenues from a revenue producing property owned, controlled, or operated by the state or local agency, or by a department, board, agency or authority of the State or local agency. |

| Term | Definition |
|--|---|
| Statutory and Board-Designated Reserve Funds | Funds established to address unexpected agency needs and not intended for use in the normal course of business. The Statutory and Board-Designated Reserve Funds should be offset by any working Capital or net current asset deficits. The desired level for the Board Designated reserve funds is a minimum of 2.5 and maximum of 3.0 months of capitation revenues and a Statutory reserve between 100% and 110% of Tangible Net Equity (TNE) as specified by CalOptima Health Policy GA.3001: Statutory and Board-Designated Reserve Funds. CalOptima Health shall utilize the Tier 1 investment portfolio for the Board-designated Reserve and Tier 2 for Statutory Reserve. |
| Supranational Institutions | International institutions formed by two (2) or more governments that transcend boundaries to pursue mutually beneficial economic or social goals. |
| Surplus | Assets beyond liabilities. |
| Underlying Pool of Securities | Those securities and obligations that are eligible for direct investment by local public agencies. |
| Valuation | An estimation of the worth of a financial Instrument or asset. CalOptima Health's asset managers provide CalOptima Health with reporting that shows the Valuation of each financial Instrument that they own on behalf of CalOptima Health. Each asset manager uses a variety of market sources to determine individual Valuations. |