November 13, 2024

Investment Program Recommendations

The California HOPE for Children Trust Account Program

Objective & Decision Points

RVK will be reviewing the following investment analysis and recommendations for the California HOPE for Children Trust Account Program (HOPE Program):

1. Investment Structure
2. Initial Investment Strategy
3. Intergenerational Equity Objective & Analysis
4. Target Dollar Distribution per Child at Age 18

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HOPE Program Investment Objectives and Constraints

Program Objectives

- Provide $4,500 (or another target amount) to every enrolled child at age 18, adjusted for inflation.
- Pursuing intergenerational equity in purchasing power among all enrolled children, within the same and across different age groups.

Investment Objectives

1. Provide stable, income-generating investment growth for ages 0-17, keeping up with inflation.
2. Provide a stable, liquid, income-generating investment option until withdrawal for ages 18-26.

Program Constraints

- Unknown population and demographics.
  - Initial total population
  - Total enrolled children turning 18 each year
  - Additional enrolled children each year
- Unknown withdrawal date after each enrolled child turns 18 (up to age 26).

Investment Constraints

- PMIA investment statutes.
  - Buy & hold investment approach.
- $14.25m/year to be received and invested is not adjusted for inflation.

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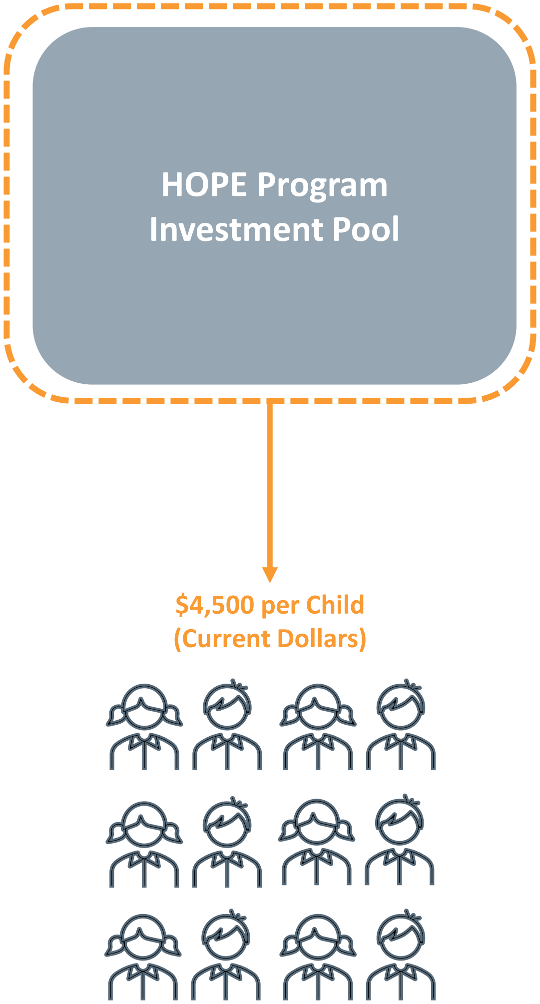
Pooled Model (Permanent Fund Approach)

RVK Recommendation



Potential Benefits vs. Individual Account Structure

- ✓ Can achieve equity amongst all enrolled children within the same age group, regardless of enrollment date.
- ✓ Can achieve equity across all enrolled children of different ages, adjusting $4,500 for inflation each year.
- ✓ Less administratively complex to manage and monitor.
- ✓ Supports ability to scale the program in the future.
- ✓ Market/investment risk before age 18 assumed by the HOPE Program and Board.
- ✓ Can report a single performance number for the investment pool, without the need to calculate custom investment returns for each enrolled child prior to age 18.

Potential Drawbacks vs. Individual Account Structure

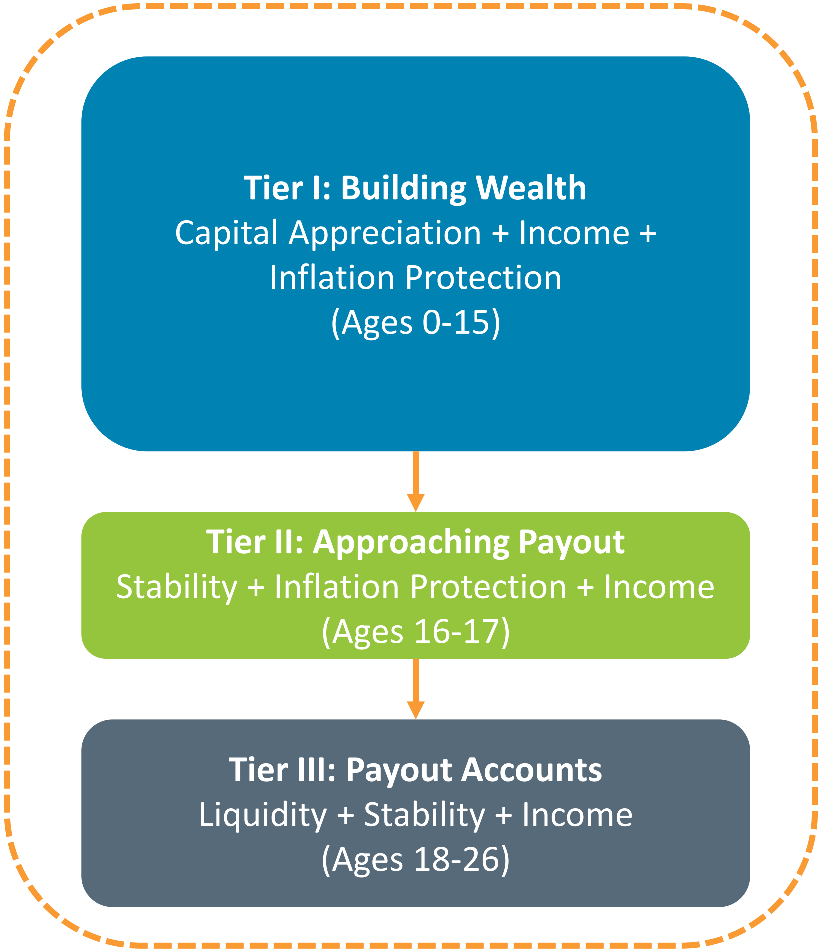
- Estimated future payout amounts will be presented online to enrolled children (and guardians) prior to age 18. “Live” balances will be available only to enrolled children after age 18.
- Removes the potential for some age groups to earn more than $4,500 (adjusted for inflation) by age 18.
- The Board will need to regularly monitor the investment pool’s ability to preserve long-term purchasing power.

Visual is shown for illustrative purposes only.

Pooled Model (Permanent Fund Approach)

RVK Recommendation

HOPE Program Investment Assets



- Sizing of each bucket is determined by current (or estimated) enrolled population.
  - Tiers II and III should include a cushion for additional children that may enroll in the coming year(s).
- Annual Payout Amount is calculated and approved by the Board for all 18-year-olds of the incoming year.
  - Annual Payout Amount = $4,500 x CPI
  - Payout Amounts to remain invested in Tier III until withdrawal.
- Two Web Account Views:
  - Ages 0-17 (or guardian)
    - Estimated future payout amount, using $4,500 x CPI estimates
    - Monthly performance of investment pool (Tier I or Tier II)
  - Ages 18+
    - “Live” daily account balance
    - Monthly performance of Tier III

Visual is shown for illustrative purposes only. Structure and web account view specifics are subject to change, following discussions with the selected Program Administrator.

Potential Investment Content for Web Account Views

View 1: Ages 0-17

View date: 09/01/2029

Enrollee Name: Marco M.
DOB: 02/11/2019 Age: 10 Years Old
HOPE Account Number ###
Enrolled: 07/01/2025

Eligible Benefit Date: 02/11/2037

Estimated Benefit Amount: $6,052*
**($4,500 in 2025 adjusted for inflation. Final benefit amount may differ from current estimate.)*

HOPE Yield as of 08/31/2029: 4.10%

View 2: Ages 18-26

View date: 09/01/2029

Enrollee Name: Sandra S.
DOB: 10/10/2008 Age: 19 Years Old
HOPE Account Number ###
Enrolled: 09/01/2025

Eligible Benefit Date: 10/10/2026
Benefit Amount Received: $4,612.50
Benefit To Be Withdrawn By: 10/10/2034

Account Balance as of 08/31/2029:$4,798.24

Current Yield as of 08/31/2029: 3.75%

Visual is shown for illustrative purposes only. Web account view specifics are subject to change, following discussions with the Program Administrator.

Initial Investment Distribution: HOPE Program Launch

HOPE Program Investment Assets (~$145 million)

Tier I: Building Wealth
Capital Appreciation + Income + Inflation Protection
(Ages 0-15)
~$81.3 million (56%)

Tier II: Approaching Payout
Stability + Inflation Protection + Income
(Ages 16-17)
~$26.9 million (19%)

Tier III: Payout Accounts
Liquidity + Stability + Income
(Ages 18-26)
~$36.7 million (25%)

Initial Investment Distribution

Tier I: Ages 0-15

- Remaining investment assets available, after determining appropriate amounts for Tiers II and III. **Approximately $81.3 million (56%)**

Tier II: Ages 16-17

- Number of estimated eligible children, ages 16-17, adjusted for investment yield and inflation expectations. **Approximately $26.9 million (19%)**
- Given the unknown number of actual eligible children, consider including a buffer for additional enrollees.

Tier III: Ages 18+

- Number of estimated eligible children, age 18+ x $4,500. **Approximately $36.7 million (25%)**
- Given the unknown number of actual eligible children, consider including a buffer for additional enrollees.

Visual is shown for illustrative purposes only. $145 million reflects the estimated initial investment portfolio value, as of July 1, 2025.

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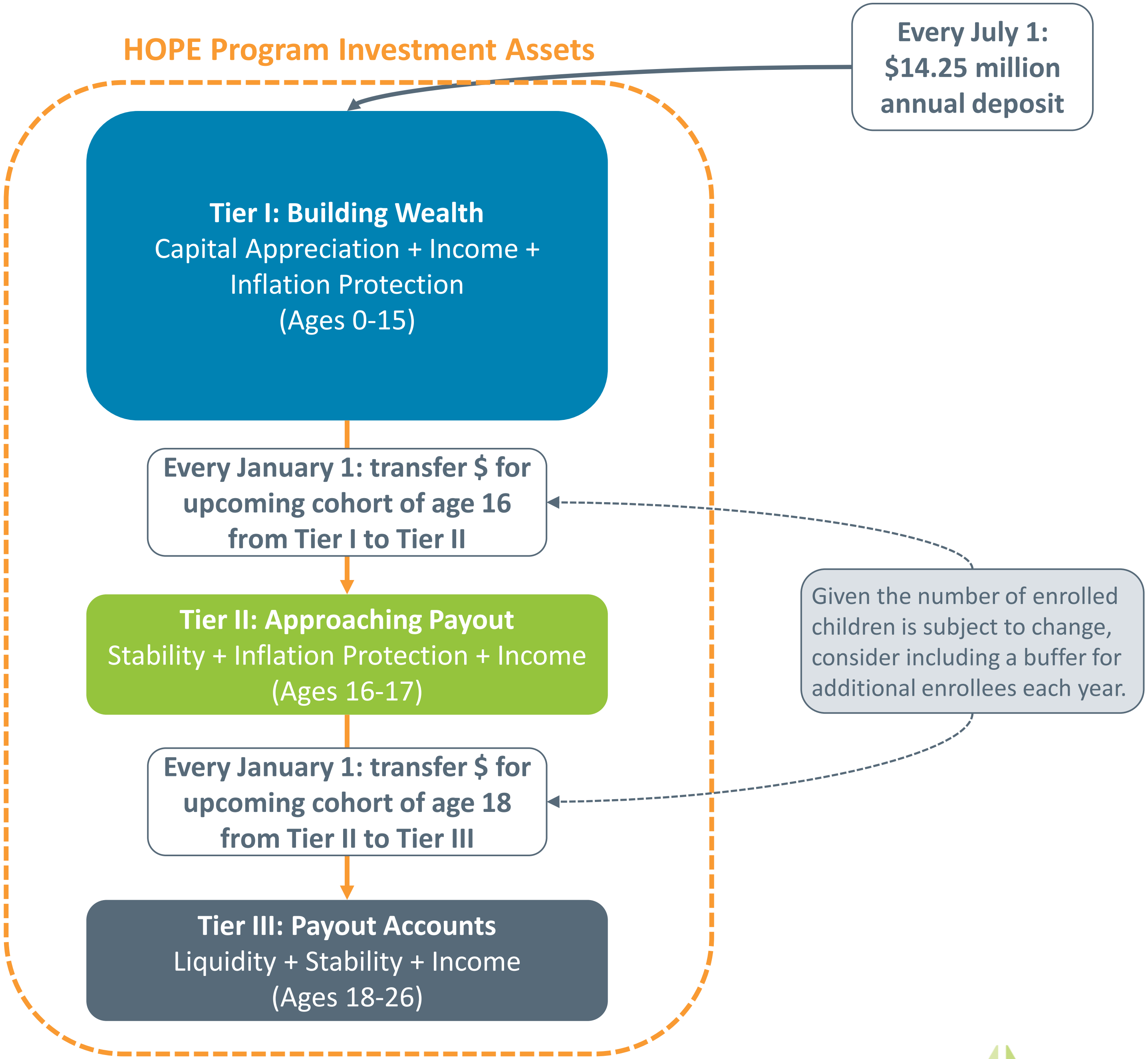
Ongoing Investment Distribution



Visual is shown for illustrative purposes only.

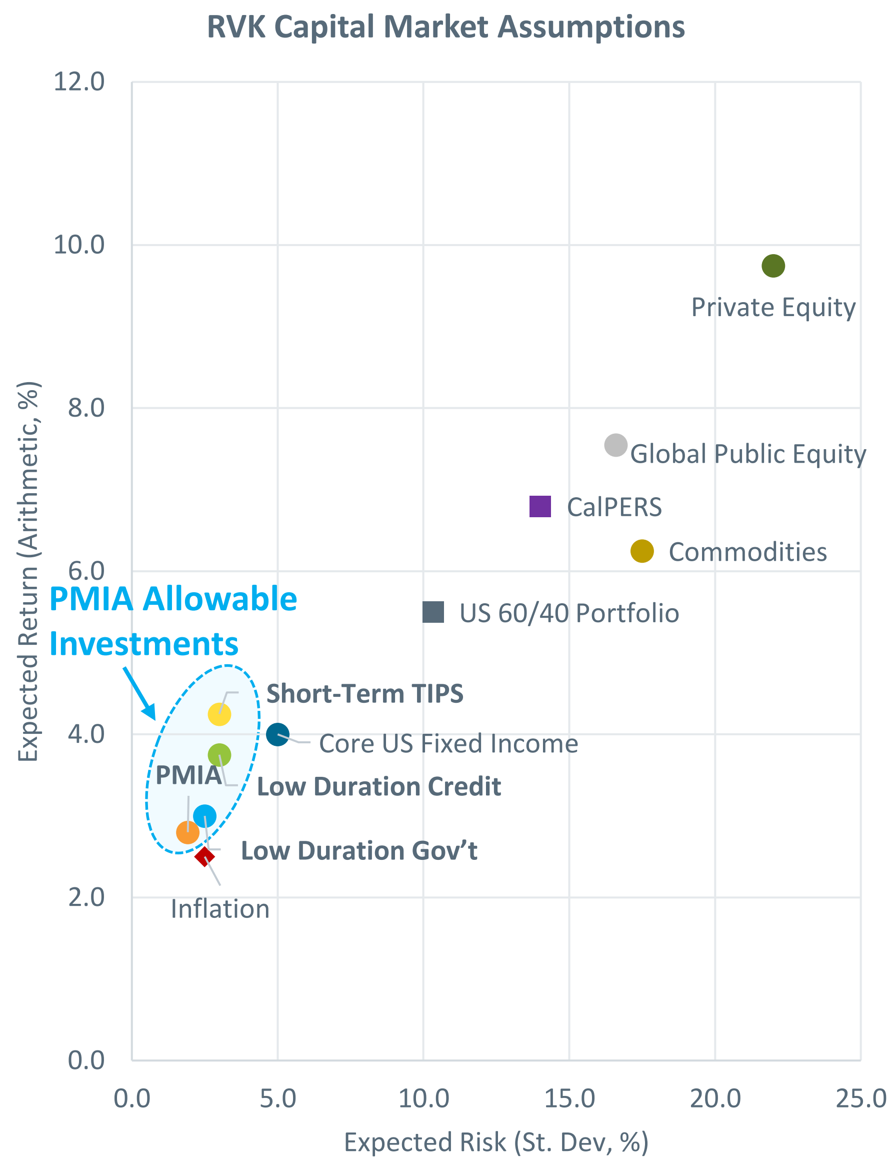
Initial Investment Strategy Recommendations

Investment Opportunity Set: PMIA Investment Guidelines

PMIA Investment Policy: Allowable Investments

Investment Type	Maximum Maturity	Maximum % of Portfolio	Maximum Per Name	Maximum Per Maturity
Agencies (Federal and Supranational)	5 years	None	None	None
Bankers Acceptances (Domestic and Foreign)	180 days	None	None	None
Certificates of Deposits	5 years	None	None	None
Collateralized Time Deposits	1 year	None	(1)	None
Commercial Paper	270 days	30%	10%	None
Corporate Bonds/Notes	5 years	None	None	None
Foreign Government Bonds/Notes	5 years	1%	None	None
Money Market Mutual Funds	Open ended	10%	10%	None
Negotiable Order of Withdrawal (NOW) Accounts	Open ended	5%	(3)	None
Repurchases (RP) and Reverse Repurchases (RRP)	1 year	(2)	None	None
U.S. Treasury Securities	5 years	None	None	None

(1) Shall not exceed the net worth of the institution or an amount considered prudent; whichever is less.
(2) RRP is limited to 10% of the current portfolio.
(3) Shall not exceed the net worth of the institution.



Expected return and risk shown for CalPERS is provided by CalPERS. All other portfolios and asset classes shown reflect 2024 RVK Capital Market Assumptions.
Source: PMIA Investment Policy, January 1, 2024. Please see the appendix for full details of the PMIA Statutes.

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Asset Classes Under Consideration

- **Low Duration Credit Fixed Income:** Debt issued by US corporations. Ratings must be considered of "high quality", rated BBB or higher. These bonds generally carry a higher expected risk/return profile when compared to government bonds of a similar maturity profile. However, investment-grade corporate debt is generally expected to have a lower expected risk/return profile than equities (stocks). This allocation will be limited to shorter maturity bonds of five years or less, per PMIA guidelines.

- **Low Duration Gov't Fixed Income:** Bonds and notes that are issued by the US Federal Government, including US Treasury Notes. This also includes debt issued by US Federal Agencies and Government-Sponsored Enterprises (Fannie Mae or Freddie Mac are government agencies). Backed by the US Federal Government, these bonds generally have a lower expected risk profile. This allocation will be limited to shorter maturity bonds of five years or less, per PMIA guidelines.

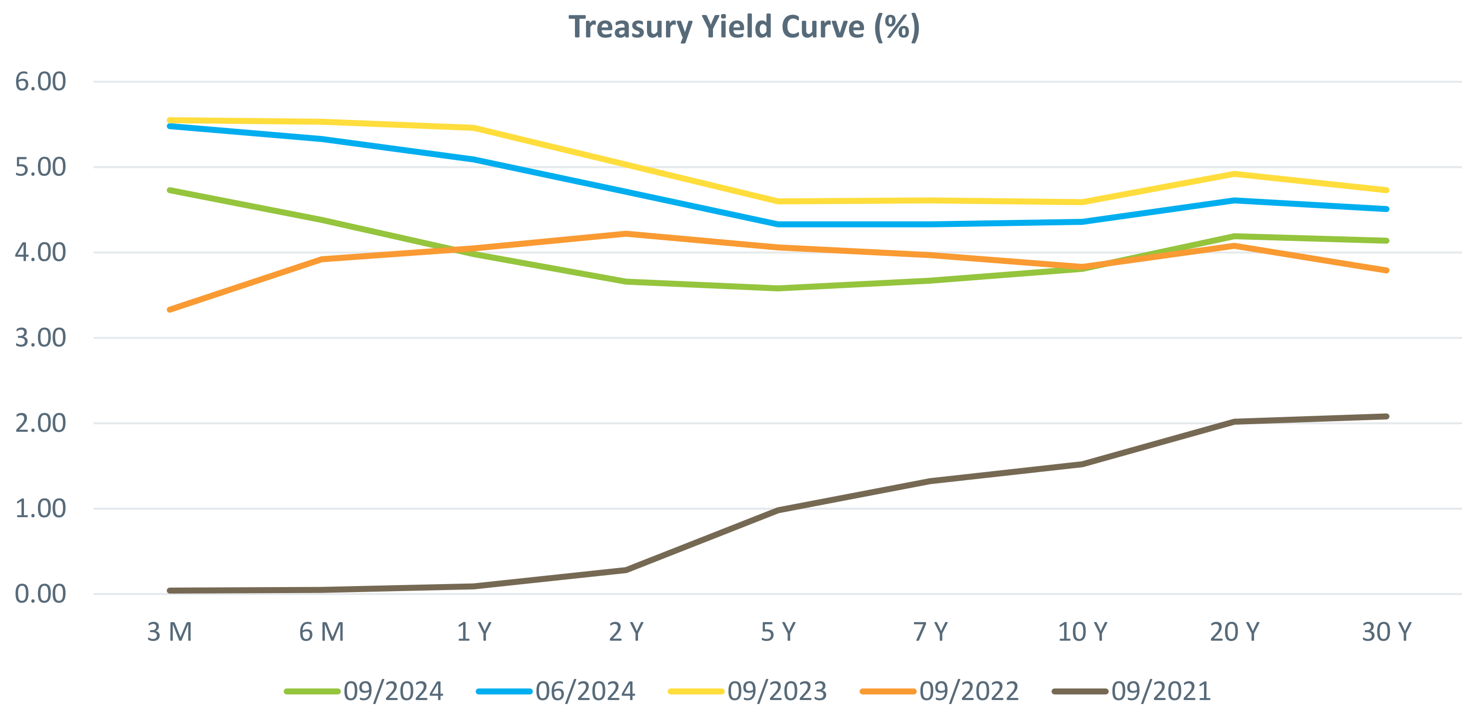
- **Short-Term TIPS:** Bonds issued by the US Treasury that are indexed to inflation to protect investors from loss of purchasing power. Backed by the US Federal Government, these bonds generally have a lower expected risk profile. This allocation will be limited to shorter maturity bonds of five years or less, per PMIA guidelines.

- **Pooled Money Investment Account (PMIA):** Portfolio managed by the State Treasurer's Investment Division, with primary investments objectives of safety, liquidity, and yield. The portfolio currently consists of over 50% US Treasuries and approximately 23% government agencies, with the remainder invested in CDs, time deposits, commercial paper, and corporate credit. The corporate credit allocation is less than 1% as of August 31, 2024.

Current Market Environment: Inverted Yield Curve

- Currently, interest rates for shorter-dated US Treasury bonds are paying a higher interest rate than longer-dated US Treasury bonds. This dynamic is referred to as an “inverted” yield curve.
  - The current inversion has been in place for 27 months (as of 9/30), marking the longest span in history.

- In normal market environments, the yield curve is upward sloping, meaning interest rates for longer-dated US Treasury bonds pay a higher interest rate (commensurate with the additional risk).



Treasury data courtesy of the US Department of the Treasury.

Initial Investment Strategy Recommendations

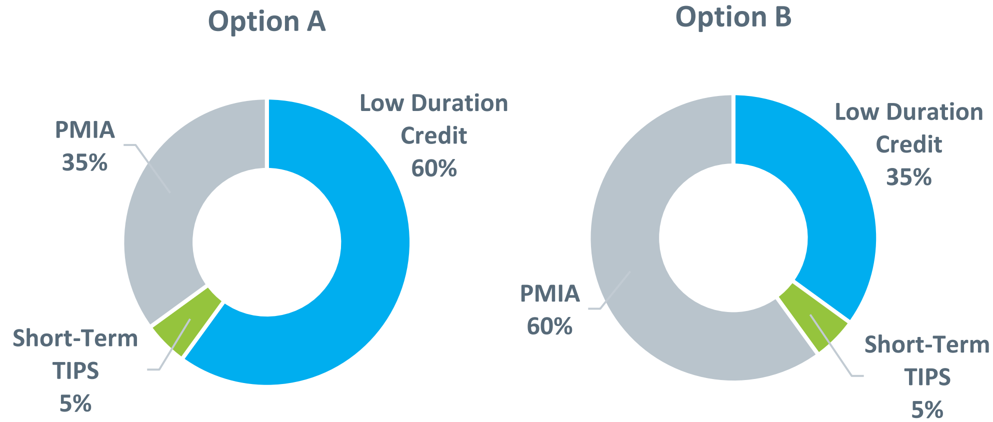
HOPE Program Investment Assets

Tier I: Building Wealth
Capital Appreciation + Income + Inflation Protection
(Ages 0-15)

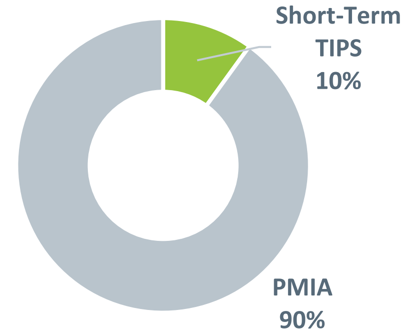
Tier II: Approaching Payout
Stability + Inflation Protection + Income
(Ages 16-17)

Tier III: Payout Accounts
Liquidity + Stability + Income
(Ages 18-26)

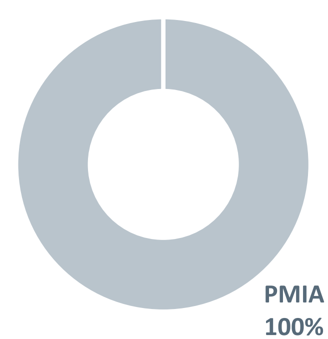
Potential Tier I: Ages 0-15



Potential Tier II: Ages 16-17



Potential Tier III: Ages 18+



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Initial Investment Strategy Recommendation: Tier I

Objectives: Capital Appreciation, Income, and Inflation Protection

- Both potential portfolios for Tier I can be reasonably expected to earn a return greater than inflation (>0% real return) over 10 years.
- Option A has a higher expected long-term return (and expected risk), with greater credit exposure.
- Option B has a modestly higher estimated yield and a lower expected 1-year maximum drawdown.
- Option A has a 45% probability of achieving a >1% real return over 10 years, while the probability for Option B is 36%.

	Potential Tier I: Option A	Potential Tier I: Option B
Low Duration Credit	60	35
Short-Term TIPS	5	5
PMIA	35	60
Total	100	100
Expected Arithmetic Return	3.44	3.20
Expected Risk (Standard Deviation)	2.16	1.82
Expected Compound Return	3.42	3.18
Expected Return (Arith.)/Risk Ratio	1.59	1.76
RVK Expected Eq Beta (LCUS Eq = 1)	0.05	0.04
Estimated Yield (%)	4.38	4.44
Monte Carlo Simulation		
1-Year Maximum Drawdown (Nominal)	-1.22	-0.65
10-Year Median Return (Nominal)	3.38	3.17
Probability of >0.5% Real Return Over 10 Years (%)	65	58
Probability of >1% Real Return Over 10 Years (%)	45	36

Estimated yields are as of September 30, 2024 and are based on underlying benchmark figures for all assets excluding PMIA. Estimated yield for PMIA is the actual reported yield as of 9/30/2024. 1-year maximum drawdown returns reflect the 1-year, 1st percentile return. See the appendix for additional efficient frontier details and statistics.

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Initial Investment Strategy Recommendation: Tier II

Objectives: Stability, Inflation Protection, and Income

- The potential portfolio for Tier II can be reasonably expected to earn a return greater than inflation (>0% real return) over 10 years.
- Increased exposure to short-term TIPS, relative to the potential Tier I portfolios, is expected to provide additional inflation protection as children approach age 18.
- The potential portfolio for Tier II has a 48% probability of achieving a >0.5% real return over 10 years.

	Potential Tier II
Short-Term TIPS	10
PMIA	90
Total	100
Expected Arithmetic Return	2.95
Expected Risk (Standard Deviation)	1.83
Expected Compound Return	2.93
Expected Return (Arith.)/Risk Ratio	1.61
RVK Expected Eq Beta (LCUS Eq = 1)	0.02
Estimated Yield (%)	4.51
1-Year Maximum Drawdown (Nominal)	-1.08
10-Year Median Return (Nominal)	2.95
Probability of >0.5% Real Return Over 10 Years (%)	48
Probability of >1% Real Return Over 10 Years (%)	27

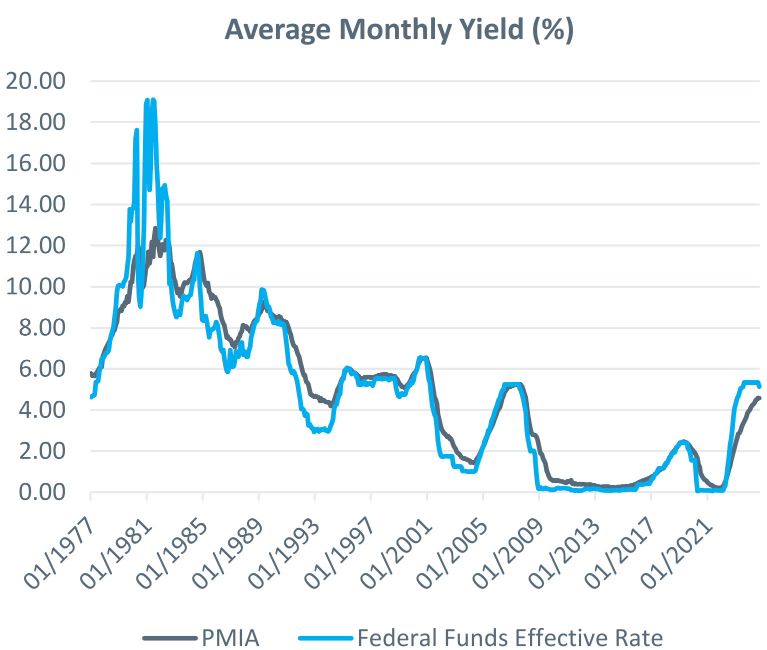
Estimated yields are as of September 30, 2024 and are based on underlying benchmark figures for all assets excluding PMIA. Estimated yield for PMIA is the actual reported yield as of 9/30/2024. 1-year maximum drawdown returns reflect the 1-year, 1st percentile return. See the appendix for additional efficient frontier details and statistics.

Initial Investment Strategy Recommendation: Tier III

Objectives: Liquidity, Stability, and Income

- The potential portfolio for Tier III can be reasonably expected to earn a return greater than inflation (>0% real return) over 10 years.

- While current yield estimates for PMIA are relatively attractive, they can be expected to rise and fall with future changes in the Fed Funds Rate.



	Potential Tier III
PMIA	100
Total	100
Expected Arithmetic Return	2.80
Expected Risk (Standard Deviation)	1.92
Expected Compound Return	2.78
Expected Return (Arith.)/Risk Ratio	1.46
RVK Expected Eq Beta (LCUS Eq = 1)	0.01
Estimated Yield (%)	4.58
1-Year Maximum Drawdown (Nominal)	-1.55
10-Year Median Return (Nominal)	2.79
Probability of >0% Real Return Over 10 Years (%)	63
Probability of >0.5% Real Return Over 10 Years (%)	42

Estimated yields are as of September 30, 2024 and are based on underlying benchmark figures for all assets excluding PMIA. Estimated yield for PMIA is the actual reported yield as of 9/30/2024. 1-year maximum drawdown returns reflect the 1-year, 1st percentile return. See the appendix for additional efficient frontier details and statistics.
Chart Source: Federal Reserve Bank of St. Louis and California State Treasurer.

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Intergenerational Equity Modeling

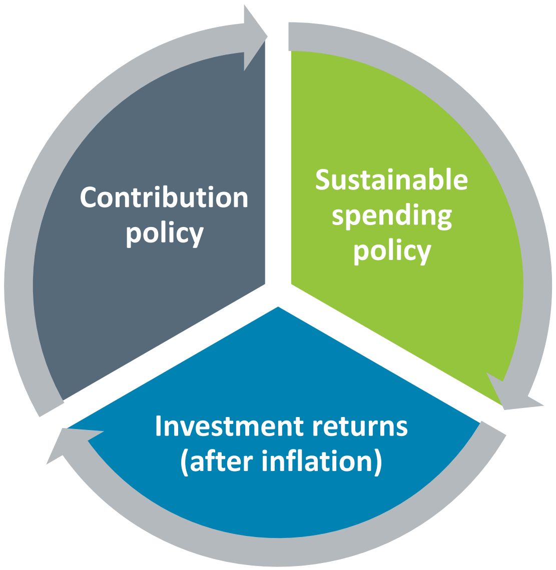
What is Intergenerational Equity?

RVK has conducted a review to evaluate the HOPE Program's long-term ability to maintain and provide intergenerational equity.

Intergenerational Equity aims to ensure the future children enrolled in the HOPE Program have the same opportunities and purchasing power as the HOPE Program's children of today.

This is achieved through a combination of:

1. Sustainable spending policy
2. Investment returns (after inflation)
3. Contribution policy



Intergenerational Equity Objective

Intergenerational Equity (IE) Objective:

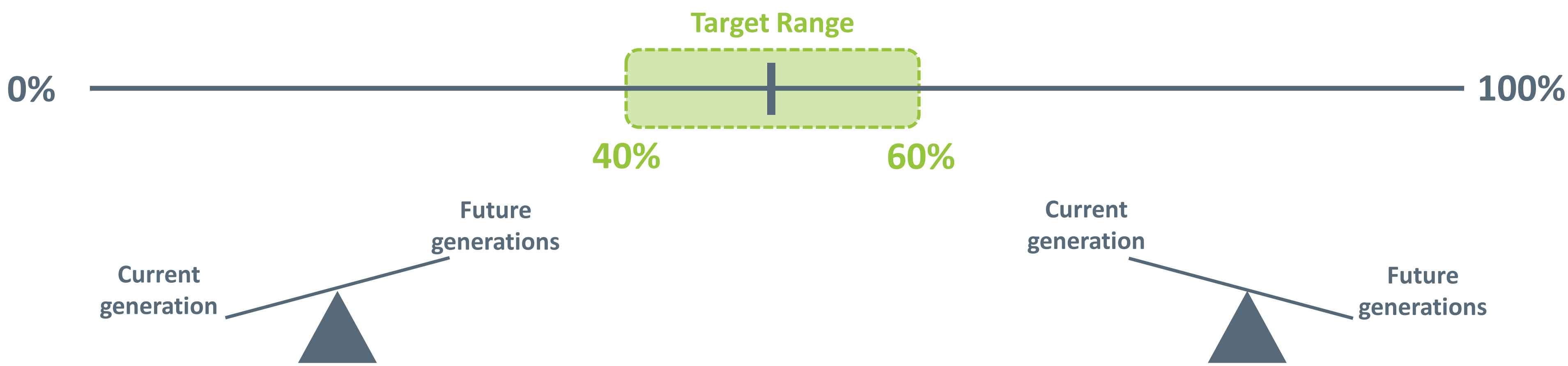
Preserving purchasing power of the investment portfolio, over a 25-year period.

This means maintaining the starting investment portfolio value of **$145 million** over 25 years, in today's dollars.

- Since the IE Objective is to preserve purchasing power, all subsequent data shown is in real terms (after inflation).

Probability of Attaining IE Objective:

The IE Score represents the probability of achieving the IE Objective (e.g. a score of 50 means there is a 50% chance of attaining the IE Objective). Generally, a score of 40-60 is desirable.



IE Score < 50%: Value of benefits available to future generations is likely to be **lower** relative to generations of today

IE Score > 50%: Value of benefits available to future generations is likely to be **greater** relative to generations of today

Modeling Assumptions

Beginning Investment Portfolio Value: $145 million

Distributions: $4,500 per enrolled child, adjusted for inflation

Population Distribution: Foster youth count provided by the California Department of Social Services, plus 10,000 COVID-bereaved youth (distributed equally across all ages).

Under 5	15,891
6-10	13,884
11-15	11,945
16-17	5,771
18+	8,686
Total*	**56,175**

**Does not assume additional children alive today are enrolled after the launch date. Assumes 2,652 children turn 18 per year beyond 2043 (year 19 after the launch date). See the appendix for the additional details.*

Long-Term Return Expectation: 3.3% or 3.1% average annual (arithmetic), combination of Tiers I and II.**

***Assumes investment portfolio consists of 75% Tier I (Option A or B, respectively) and 25% Tier II using initial population estimates.*

Expected Annual Inflation: 2.5%

Expected Nominal Inflows: $14.25 million per year***

****Annual inflows will not be adjusted for inflation. Therefore, HOPE will receive fewer annual funds in today's dollars over time.*

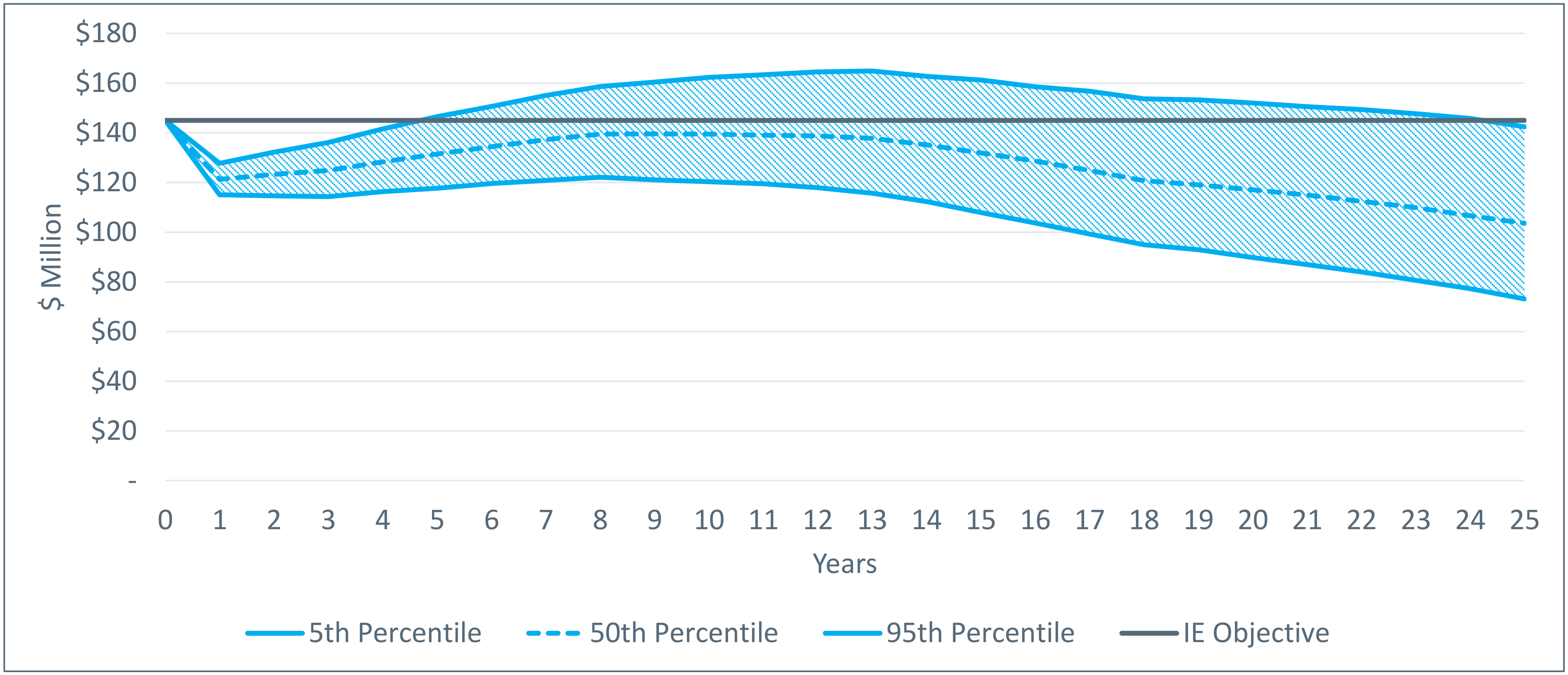
Additional Growth Factor: 0.0% per annum

Often, an additional growth factor is added to the IE Objective to attempt to account for population growth, etc. This can be modified to fit HOPE's long-term goals.

*RVK continues to work with CDSS on estimated future expected enrollment levels.

Intergenerational Equity – Tier I, Investment Option A

Projected Real Market Value (5th and 95th Percentiles + Central Measure)



<u>Tier I, Option A + Tier II (Real Basis)</u>

Median projected real market value at year 25: $103.6 million

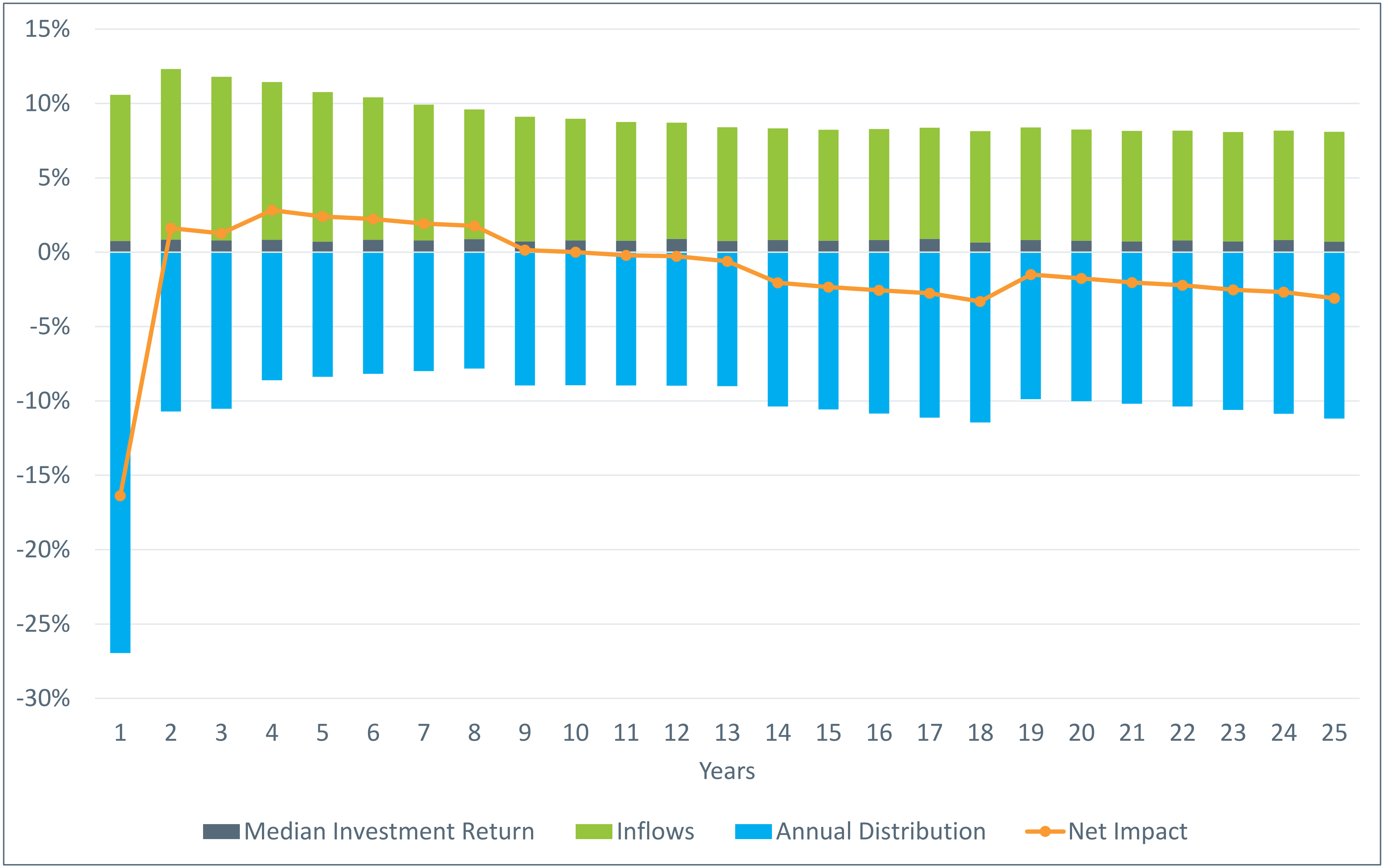
Beginning market value: $145 million

10-Year IE Score: 33.8%

25-Year IE Score: 4.3%

Intergenerational Equity – Tier I, Investment Option A

Projected IE Components – Real Basis (% of Median Beginning Market Value)



Intergenerational Equity – Tier I, Investment Option A

Sensitivity Analysis: 10 Years

The sensitivity analysis demonstrates that changes to any—or even just one—of the factors impacting the medium-term fiscal health of the HOPE Program can have a substantial influence on the ability to provide and maintain intergenerational equity.

	Base Case (Probability of Attaining IE Objective, 10 Years)	Impact of UP move to assumption	Impact of DOWN move to assumption
Target $ Amount per Child	$4,500 **(33.8%)**	$5,000 **(4.1%)**	$4,000 **(81.2%)**
Estimated Total Children Currently Eligible*	56,175 **(33.8%)**	61,175 (+5,000) **(6.9%)**	51,175 (-5,000) **(73.7%)**
Additional Children Enrolled Per Year After Launch*	None **(33.8%)**	1,000 per year **(10.0%)**	N/A
Annual Inflows	$14.25 million per year, not adjusted for inflation **(33.8%)**	$14.25 million per year, adjusted for inflation **(78.2%)**	$13.11 million per year, not adjusted for inflation (8% budget cut) **(10.8%)**
Average Annual Inflation	2.5% per year **(33.8%)**	3.5% per year **(2.9%)**	1.5% per year **(86.5%)**

All data is shown in real terms. Monte Carlo simulations assume the investment portfolio consists of 25% Tier II and 75% Tier I.
*RVK continues to work with CDSS on estimated future expected enrollment levels.

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Intergenerational Equity – Tier I, Investment Option A

Sensitivity Analysis: 25 Years

The sensitivity analysis demonstrates that changes to any—or even just one—of the factors impacting the long-term fiscal health of the HOPE Program can have a substantial influence on the ability to provide and maintain intergenerational equity.

	Base Case (Probability of Attaining IE Objective, 25 Years)	Impact of UP move to assumption	Impact of DOWN move to assumption
Target $ Amount per Child	$4,500 **(4.3%)**	$5,000 **(0.0%)**	$4,000 **(50.3%)**
Estimated Total Children Currently Eligible*	56,175 **(4.3%)**	61,175 (+5,000) **(0.0%)**	51,175 (-5,000) **(37.6%)**
Additional Children Enrolled Per Year After Launch*	None **(4.3%)**	1,000 per year **(0.0%)**	N/A
Annual Inflows	$14.25 million per year, not adjusted for inflation **(4.3%)**	$14.25 million per year, adjusted for inflation **(99.2%)**	$13.11 million per year, not adjusted for inflation (8% budget cut) **(0.3%)**
Average Annual Inflation	2.5% per year **(4.3%)**	3.5% per year **(0.0%)**	1.5% per year **(90.3%)**

All data is shown in real terms. Monte Carlo simulations assume the investment portfolio consists of 25% Tier II and 75% Tier I. Annual inflows of $16.25 million per year, not adjusted for inflation, are required to achieve an IE Objective probability of 51.4% over 25 years.
*RVK continues to work with CDSS on estimated future expected enrollment levels.

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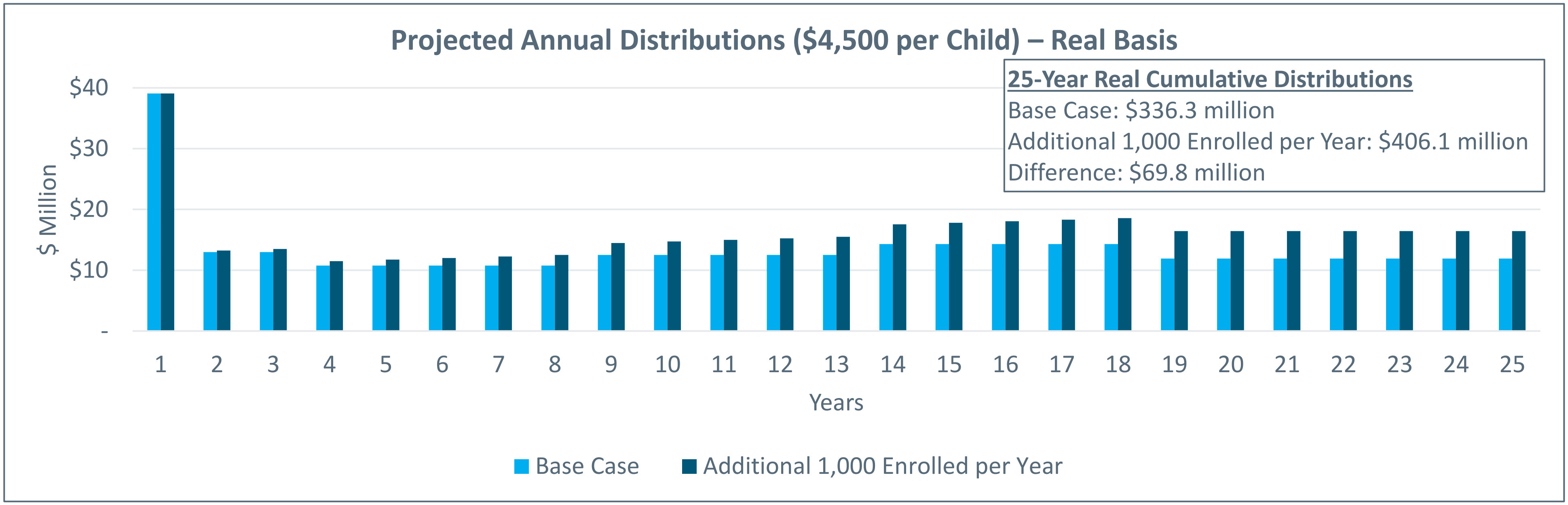
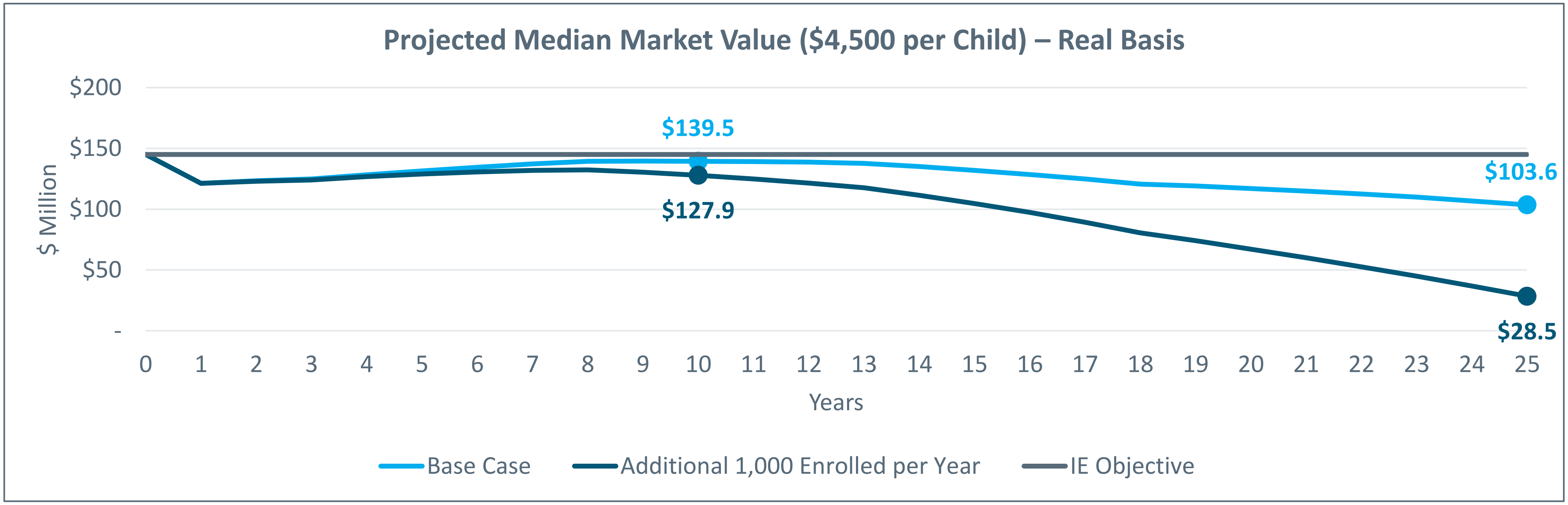
Intergenerational Equity – Tier I, Investment Option A

Base Case vs. Additional 1,000 Enrolled per Year

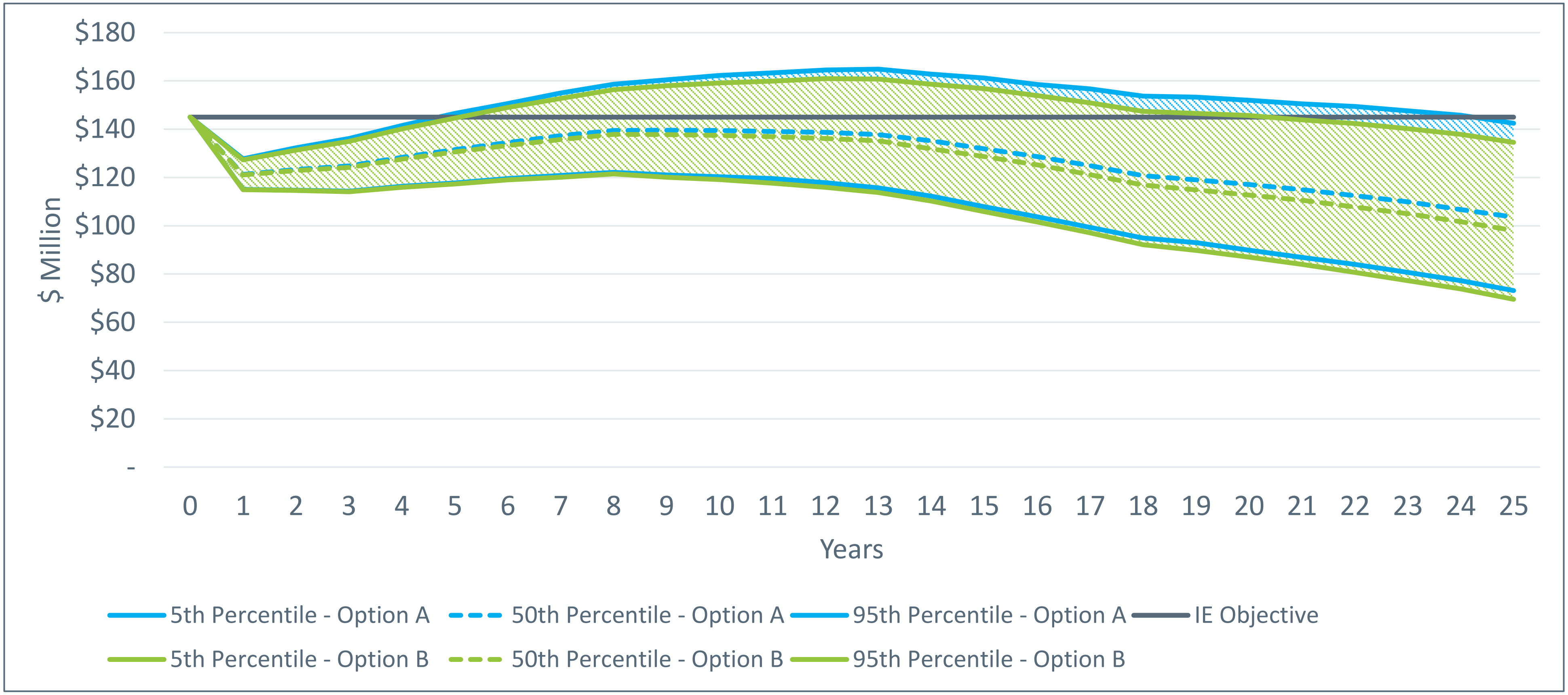




Additional 1,000 enrolled children per year are distributed equally across all age groups. Both scenarios assume a distribution of $4,500 per child at age 18, in real terms.
10-Year real cumulative distributions for Base Case: $143.8 million and for Additional 1,000 Enrolled per Year: $155.0 million.

Intergenerational Equity – Tier I, Investment Option B

Projected Real Market Value (5th and 95th Percentiles + Central Measure)



<u>Tier I, Option B + Tier II (Real Basis)</u>

Median projected real market value at year 25: $98.0 million

Beginning market value: $145 million

10-Year IE Score: 27.2%

25-Year IE Score: 1.8%

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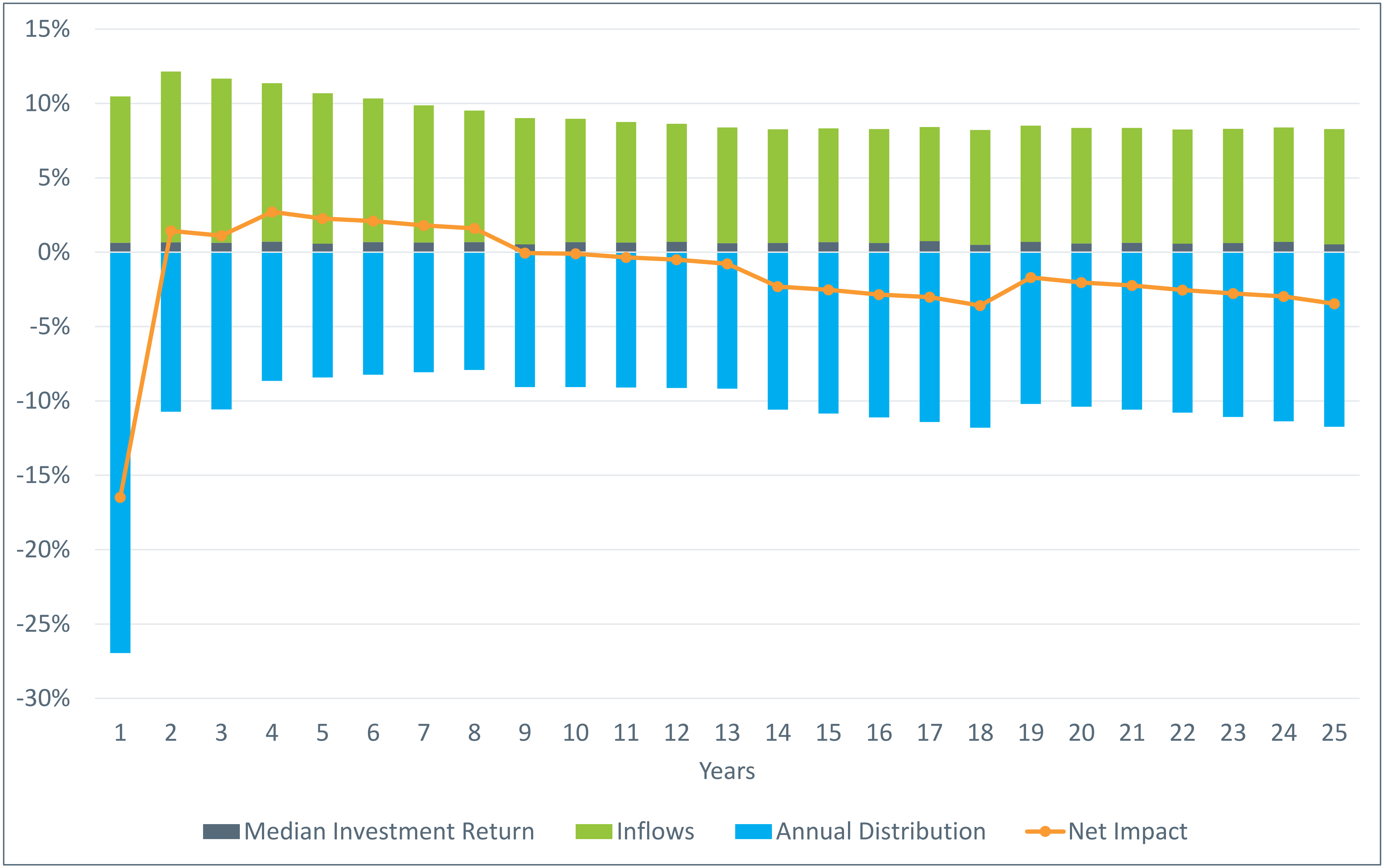
Intergenerational Equity – Tier I, Investment Option B

Projected IE Components – Real Basis (% of Median Beginning Market Value)



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Intergenerational Equity – Tier I, Investment Option B

Sensitivity Analysis: 10 Years

The sensitivity analysis demonstrates that changes to any—or even just one—of the factors impacting the medium-term fiscal health of the HOPE Program can have a substantial influence on the ability to provide and maintain intergenerational equity.

	Base Case (Probability of Attaining IE Objective, 10 Years)	Impact of UP move to assumption	Impact of DOWN move to assumption
Target $ Amount per Child	$4,500 **(27.2%)**	$5,000 **(2.6%)**	$4,000 **(76.8%)**
Estimated Total Children Currently Eligible*	56,175 **(27.2%)**	61,175 (+5,000) **(4.6%)**	51,175 (-5,000) **(68.3%)**
Additional Children Enrolled Per Year After Launch*	None **(27.2%)**	1,000 per year **(6.8%)**	N/A
Annual Inflows	$14.25 million per year, not adjusted for inflation **(27.2%)**	$14.25 million per year, adjusted for inflation **(73.4%)**	$13.11 million per year, not adjusted for inflation (8% budget cut) **(7.4%)**
Average Annual Inflation	2.5% per year **(27.2%)**	3.5% per year **(1.8%)**	1.5% per year **(83.2%)**

All data is shown in real terms. Monte Carlo simulations assume the investment portfolio consists of 25% Tier II and 75% Tier I.
*RVK continues to work with CDSS on estimated future expected enrollment levels.

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Intergenerational Equity – Tier I, Investment Option B

Sensitivity Analysis: 25 Years

The sensitivity analysis demonstrates that changes to any—or even just one—of the factors impacting the long-term fiscal health of the HOPE Program can have a substantial influence on the ability to provide and maintain intergenerational equity.

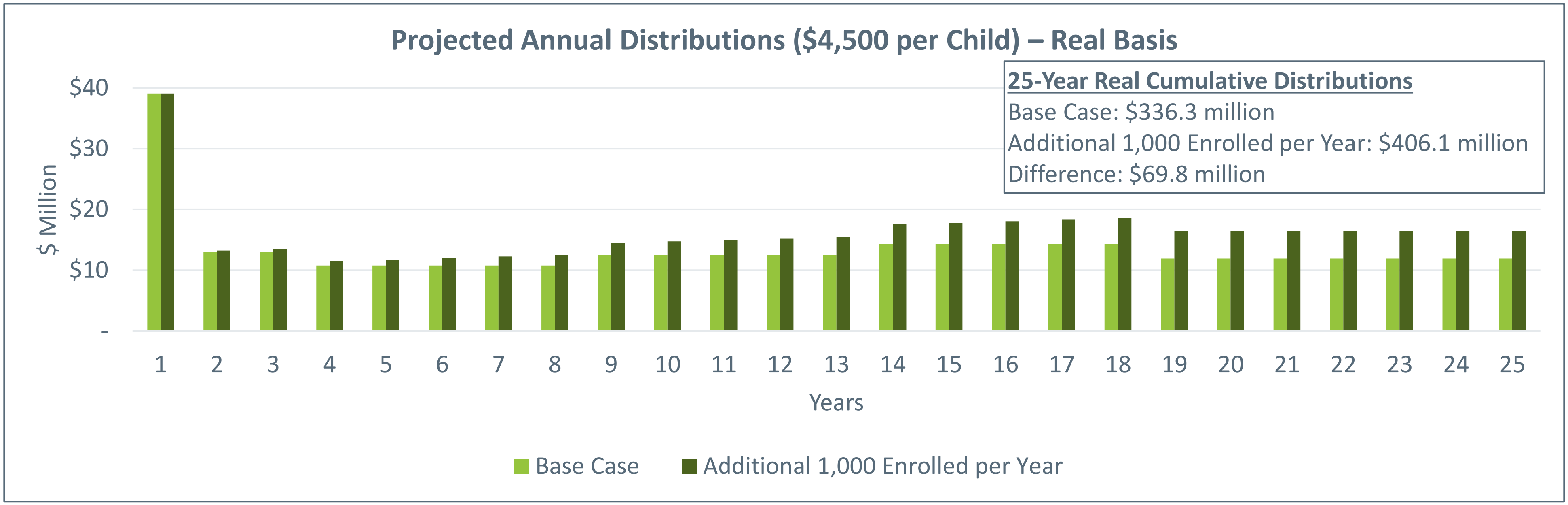
	Base Case (Probability of Attaining IE Objective, 25 Years)	Impact of UP move to assumption	Impact of DOWN move to assumption
Target $ Amount per Child	$4,500 **(1.8%)**	$5,000 **(0.0%)**	$4,000 **(39.1%)**
Estimated Total Children Currently Eligible*	56,175 **(1.8%)**	61,175 (+5,000) **(0.0%)**	51,175 (-5,000) **(27.4%)**
Additional Children Enrolled Per Year After Launch*	None **(1.8%)**	1,000 per year **(0.0%)**	N/A
Annual Inflows	$14.25 million per year, not adjusted for inflation **(1.8%)**	$14.25 million per year, adjusted for inflation **(98.6%)**	$13.11 million per year, not adjusted for inflation (8% budget cut) **(0.0%)**
Average Annual Inflation	2.5% per year **(1.8%)**	3.5% per year **(0.0%)**	1.5% per year **(85.6%)**

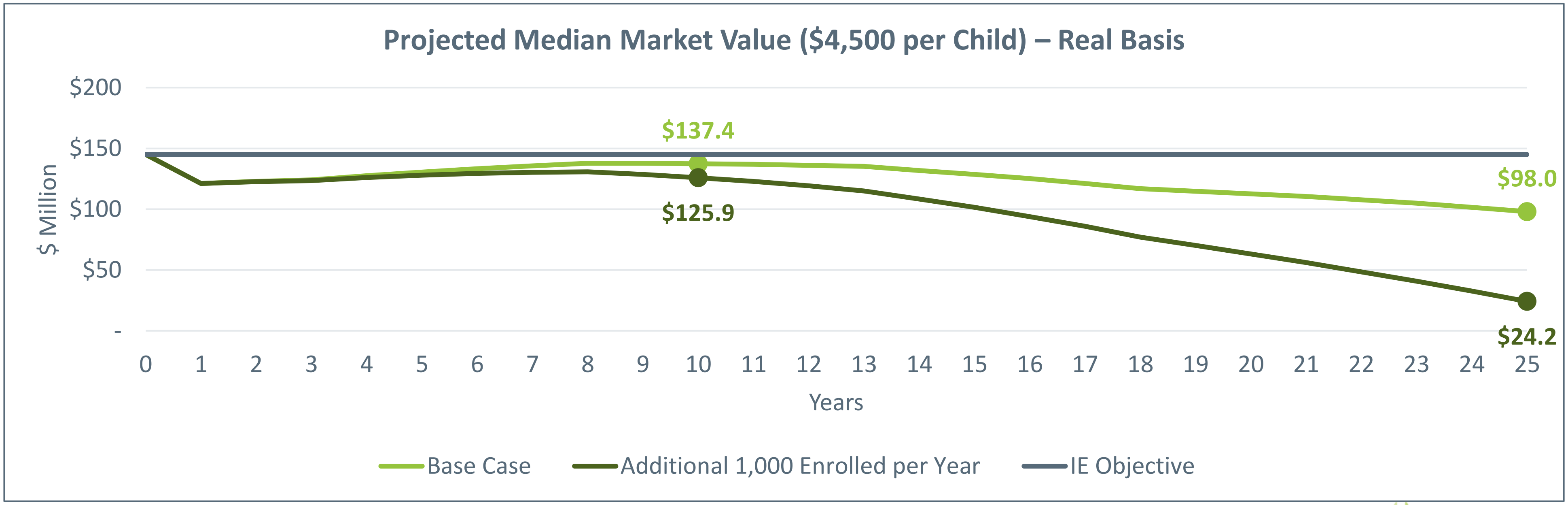
All data is shown in real terms. Monte Carlo simulations assume the investment portfolio consists of 25% Tier II and 75% Tier I. Annual inflows of $16.50 million per year, not adjusted for inflation, are required to achieve an IE Objective probability of 49.5% over 25 years.
*RVK continues to work with CDSS on estimated future expected enrollment levels.

RVK

Intergenerational Equity – Tier I, Investment Option B

Base Case vs. Additional 1,000 Enrolled per Year





Additional 1,000 enrolled children per year are distributed equally across all age groups. Both scenarios assume a distribution of $4,500 per child at age 18, in real terms.
10-Year real cumulative distributions for Base Case: $143.8 million and for Additional 1,000 Enrolled per Year: $155.0 million.

RVK

Summary of Intergenerational Equity Observations

- Current assumptions suggest the health of the HOPE Program will remain steady in the near- to medium-term. However, longer-term fiscal health will likely be challenged as the annual dollars received become a smaller portion of the total annual payout, adjusted for inflation.

- Potential increases to overall population of enrolled children over time, relative to current estimates, could materially impact the long-term fiscal health of the HOPE Program and necessitate modifications to the HOPE Program to support the additional annual funds distributed.

- RVK recommends this analysis be reviewed annually by the Board, or as requested, to monitor the HOPE Program's long-term fiscal health going forward.

Potential Follow-Up Scenarios to Examine in the Future

Urgent Priority:

- Population distribution scenarios, with additional enrolled children alive today, per year.

High Priority:

- Explore investment strategies with higher expected returns, outside of the PMIA statutes.
- What level of annual inflows are needed to support the long-term IE Objective?

Subsequent Priority:

- What would it take to support $5,000 or $7,000 per child?

RVK

Conclusion and Next Steps

Summary of RVK Recommendations (Board Action Item)

RVK recommends the following components, as it relates to the HOPE Program's overall investment strategy:

1. A **pooled model** that aggregates investment assets until enrolled children turn 18

2. The below initial **investment strategy targets**:
   - Tier I: 60% Low Duration Credit, 5% Short-Term TIPS, and 35% PMIA (Option A)
   - Tier II: 10% Short-Term TIPS and 90% PMIA
   - Tier III: 100% PMIA

3. Maintaining the current **target distribution of $4,500 per child** at age 18, adjusted for inflation

RVK

Next Steps

Preparing for Implementation:

- RVK will work with HOPE Program Staff, California State Treasurer Staff, and the new Program Administrator to prepare for implementation of the investment strategy.

Drafting of the Investment Policy Statement:

- RVK will develop an Investment Policy Statement for the Board to review and approve in February. Contents of the IPS are anticipated to include:
  - Investment objectives and constraints
  - Roles and responsibilities
  - Strategic asset allocation and investment structure (as reviewed today)
  - General ESG and DEI policy language
  - Ongoing monitoring plan and schedule

Developing a Fiscal Health Work Plan:

- In collaboration with HOPE Program Staff, RVK will develop a Fiscal Health Work Plan for the Board to review in February.
- The Work Plan will include a schedule to review and monitor the primary components of the HOPE Program's long-term fiscal health, such as:
  - Investment strategy targets and expected investment returns
  - Historical investment performance and Program outcomes
  - Estimated future enrollment levels
  - Any potential changes to future annual inflows

Appendix

RVK's Capital Market Assumptions and Process

RVK's asset class assumptions use a rigorous multi-step process, which involves detailed research and employs firm-wide resources.

These assumptions are long-run, forward-looking and strategic in nature, with an investment horizon of 20 years.

The components we estimate include:

- **Return:** Expected average annual investment return, net of fees and assuming no "alpha" beyond the associated market index.
- **Risk:** Annual volatility of expected investment returns.
- **Correlation:** The relationship of how asset classes move together, or not. Correlations less than +1.00 indicate diversification opportunities that may result in achieving a higher rate of return with lower volatility.

2024 Capital Market Assumptions

	Arithmetic Return	Standard Deviation	Compound Return	Return (Arith.) / Risk Ratio	Est. Yield (as of 9/30/24)
Low Duration Credit Fixed Income	3.75	3.00	3.71	1.25	4.30
Low Duration Gov't Fixed Income	3.00	2.50	2.97	1.20	3.71
Short-Term TIPS	4.25	3.00	4.21	1.42	3.89
PMIA (Custom Blend)	2.80	1.92	2.78	1.46	4.58
Inflation	2.50	2.50	2.47	1.00	N/A

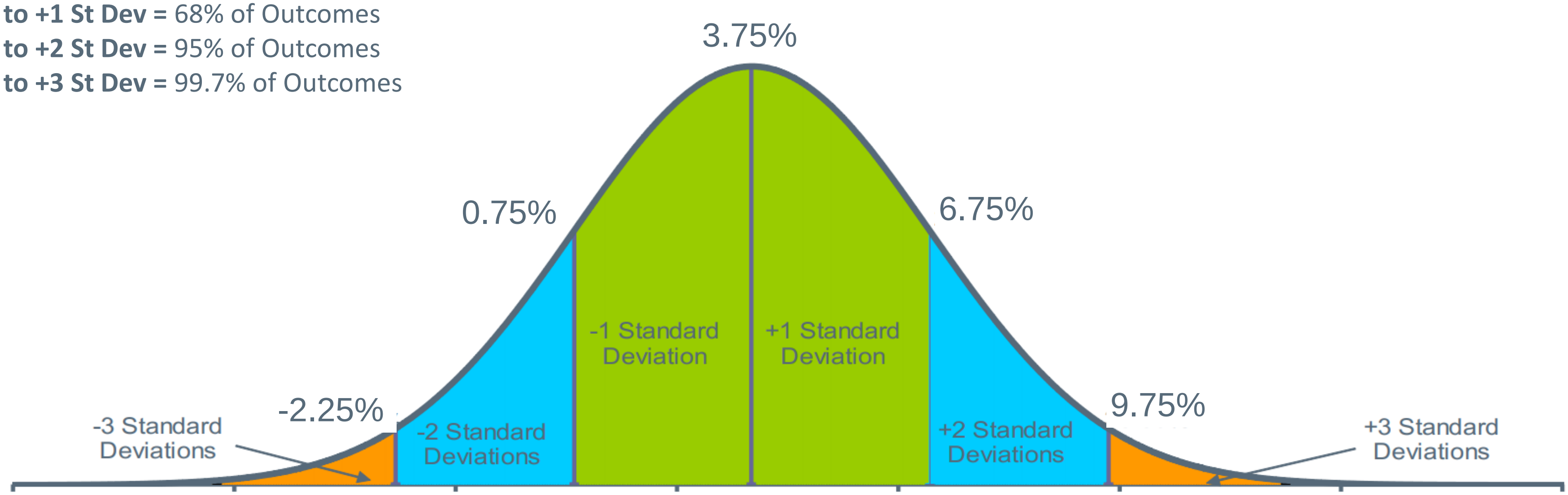
PMIA assumption is a blend of 80% cash equivalents and 20% low duration gov't fixed income. Inflation is not an investable asset class and is shown for illustrative purposes only.

RVK Capital Market Assumptions: Annual Volatility

	-3 St Dev	-2 St Dev	-1 St Dev	Expected Return	+1 St Dev	+2 St Dev	+3 St Dev
Low Duration Credit Fixed Income	-5.25	-2.25	0.75	3.75	6.75	9.75	12.75
Low Duration Gov't Fixed Income	-4.50	-2.00	0.50	3.00	5.50	8.00	10.50
Short-Term TIPS	-4.75	-1.75	1.25	4.25	7.25	10.25	13.25
PMIA (Custom Blend)	-2.96	-1.04	0.88	2.80	4.72	6.64	8.56

Expected Annual Return: Low Duration Credit

-1 St Dev to +1 St Dev = 68% of Outcomes
-2 St Dev to +2 St Dev = 95% of Outcomes
-3 St Dev to +3 St Dev = 99.7% of Outcomes



RVK

RVK Capital Market Assumptions: Correlation Matrix

	Low Duration Credit Fixed Income	Low Duration Gov't Fixed Income	Short-Term TIPS	PMIA (Custom Blend)	Inflation
Low Duration Credit Fixed Income	1.00	0.40	0.64	0.23	-0.13
Low Duration Gov't Fixed Income	0.40	1.00	0.49	0.67	-0.10
Short-Term TIPS	0.64	0.49	1.00	0.28	0.16
PMIA (Custom Blend)	0.23	0.67	0.28	1.00	0.17
Inflation	-0.13	-0.10	0.16	0.17	1.00

Efficient Frontier: Tier I

The table below shows the range of possible optimal allocations given the selected asset classes and constraints listed under "Min" and "Max". This range illustrates the tradeoff between return and risk; additional return can only be achieved by undertaking additional risk.

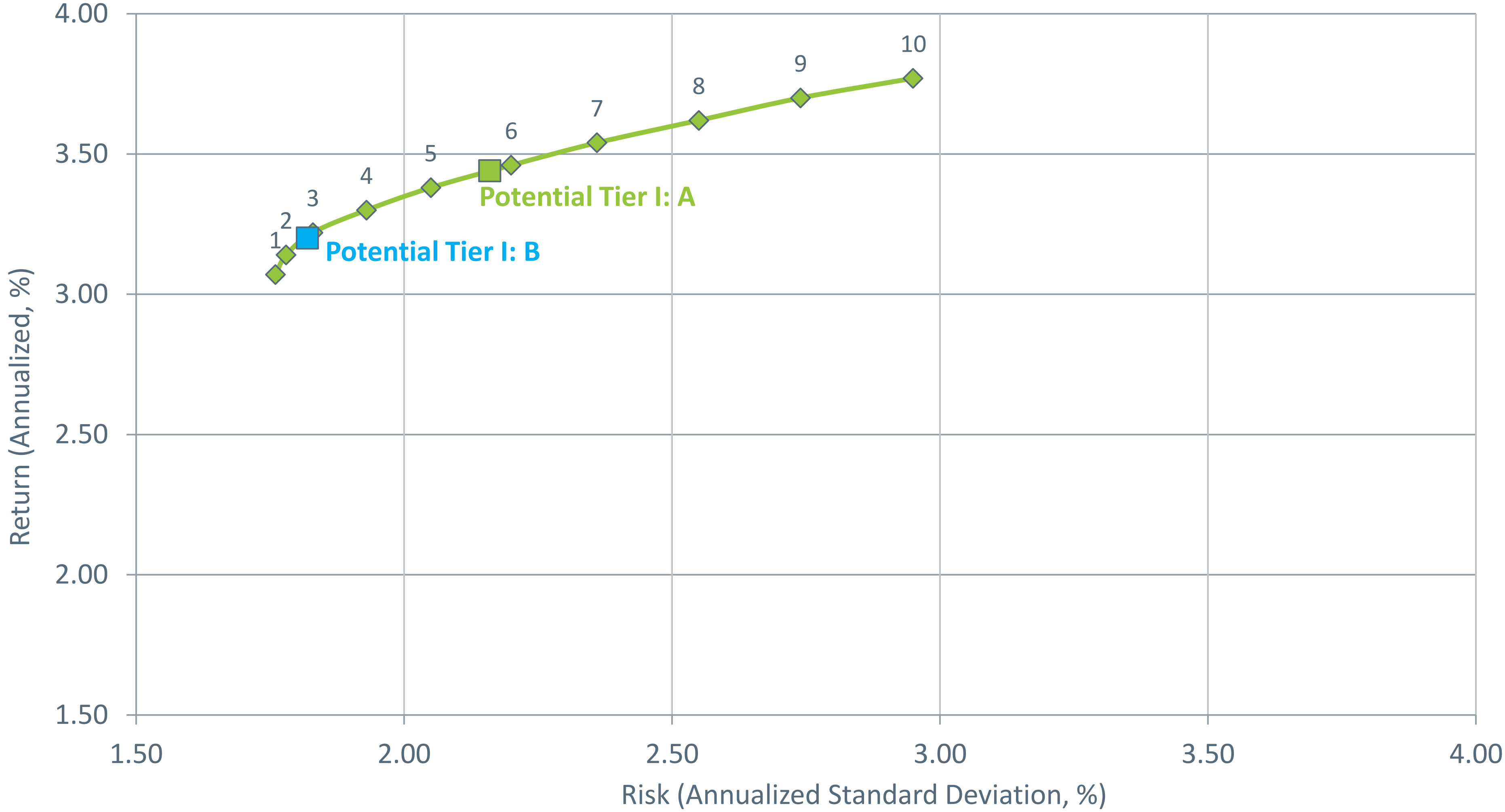
	Min	Max	1	2	3	4	5	6	7	8	9	10	Potential Tier I: A	Potential Tier I: B
Low Duration Credit Fixed Income	0	100	20	29	37	45	53	62	70	78	87	95	60	35
Low Duration Gov't Fixed Income	0	100	0	0	0	0	0	0	0	0	0	0	0	0
Short-Term TIPS	0	5	5	5	5	5	5	5	5	5	5	5	5	5
PMIA Custom	0	100	75	66	58	50	42	33	25	17	8	0	35	60
Total			100	100	100	100	100	100	100	100	100	100	100	100
Capital Appreciation			0	0	0	0	0	0	0	0	0	0	0	0
Capital Preservation			95	95	95	95	95	95	95	95	95	95	95	95
Alpha			0	0	0	0	0	0	0	0	0	0	0	0
Inflation			5	5	5	5	5	5	5	5	5	5	5	5
Expected Arithmetic Return			**3.07**	**3.14**	**3.22**	**3.30**	**3.38**	**3.46**	**3.54**	**3.62**	**3.70**	**3.77**	**3.44**	**3.20**
Expected Risk (Standard Deviation)			**1.76**	**1.78**	**1.83**	**1.93**	**2.05**	**2.20**	**2.36**	**2.55**	**2.74**	**2.95**	**2.16**	**1.82**
Expected Compound Return			**3.05**	**3.12**	**3.20**	**3.28**	**3.36**	**3.44**	**3.51**	**3.59**	**3.66**	**3.73**	**3.42**	**3.18**
Expected Return (Arithmetic)/Risk Ratio			1.74	1.76	1.76	1.71	1.65	1.57	1.5	1.42	1.35	1.28	1.59	1.76
RVK Expected Eq Beta (LCUS Eq = 1)			0.03	0.03	0.04	0.04	0.05	0.06	0.06	0.07	0.07	0.08	0.05	0.04
RVK Liquidity Metric (T-Bills = 100)			93	92	91	90	90	89	88	87	86	86	89	92
Estimated Yield (%)			4.49	4.46	4.44	4.42	4.40	4.37	4.35	4.33	4.30	4.28	4.38	4.44
1-Year 1st Percentile Return (Nominal)			-0.66	-0.59	-0.69	-0.82	-0.99	-1.29	-1.63	-2.01	-2.41	-2.87	-1.22	-0.65
10-Year Median Return (Nominal)			3.04	3.12	3.18	3.26	3.32	3.40	3.46	3.53	3.60	3.66	3.38	3.17
Probability of >1% Real Return Over 10 Years			31	34	37	40	43	46	49	51	53	55	45	36

Estimated yields are as of September 30, 2024, and are based on underlying benchmark figures for all assets excluding PMIA. Estimated yield for PMIA is the actual reported yield as of 9/30/2024. 1-year maximum drawdown reflects the 1-year, 1st percentile return.

RVK

Efficient Frontier: Tier I

The figure below illustrates the relationship between risk and return. The risk of each alternative allocation is plotted against the horizontal axis, while the return is measured on the vertical axis. The line connecting the points represents all the optimal portfolios subject to the given constraints and is known as the "efficient frontier." The upward slope of the efficient frontier indicates the direct relationship between return and risk.



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Expected Return by Percentile: Tier I

The table below shows the expected <u>nominal</u> return by percentile for each portfolio for the 1-, 3-, 5-, and 10-year periods.

1 Year	1	2	3	4	5	6	7	8	9	10	Potential Tier I: A	Potential Tier I: B
1st Percentile	-0.66	-0.59	-0.69	-0.82	-0.99	-1.29	-1.63	-2.01	-2.41	-2.87	-1.22	-0.65
5th Percentile	0.41	0.48	0.45	0.40	0.29	0.11	-0.13	-0.36	-0.63	-0.90	0.14	0.47
25th Percentile	1.94	2.01	2.04	2.07	2.07	2.03	1.96	1.87	1.79	1.68	2.04	2.04
50th Percentile	**3.03**	**3.10**	**3.18**	**3.23**	**3.30**	**3.35**	**3.40**	**3.47**	**3.53**	**3.60**	**3.34**	**3.16**
75th Percentile	4.14	4.20	4.29	4.41	4.55	4.72	4.91	5.12	5.34	5.59	4.68	4.27
95th Percentile	5.76	5.81	5.93	6.12	6.41	6.71	7.09	7.48	7.92	8.37	6.65	5.88
99th Percentile	6.89	6.98	7.11	7.34	7.77	8.24	8.75	9.34	9.97	10.60	8.15	7.07
3 Years												
5th Percentile	1.53	1.62	1.63	1.62	1.57	1.49	1.40	1.27	1.12	0.96	1.51	1.63
25th Percentile	2.40	2.48	2.53	2.57	2.59	2.60	2.59	2.58	2.56	2.55	2.60	2.52
50th Percentile	**3.03**	**3.11**	**3.18**	**3.24**	**3.31**	**3.37**	**3.45**	**3.52**	**3.59**	**3.65**	**3.36**	**3.17**
75th Percentile	3.68	3.74	3.82	3.93	4.04	4.18	4.33	4.47	4.62	4.76	4.15	3.80
95th Percentile	4.62	4.67	4.77	4.92	5.10	5.31	5.55	5.79	6.06	6.34	5.27	4.75
5 Years												
5th Percentile	1.87	1.95	2.00	2.01	1.99	1.93	1.87	1.79	1.69	1.59	1.94	2.00
25th Percentile	2.56	2.63	2.69	2.73	2.77	2.79	2.81	2.81	2.81	2.81	2.79	2.68
50th Percentile	**3.05**	**3.12**	**3.19**	**3.26**	**3.33**	**3.39**	**3.46**	**3.53**	**3.60**	**3.66**	**3.38**	**3.18**
75th Percentile	3.54	3.61	3.69	3.79	3.91	4.02	4.13	4.26	4.40	4.53	3.99	3.67
95th Percentile	4.25	4.31	4.40	4.52	4.68	4.88	5.08	5.30	5.55	5.79	4.83	4.37
10 Years												
5th Percentile	2.21	2.28	2.32	2.35	2.36	2.33	2.31	2.26	2.21	2.16	2.34	2.31
25th Percentile	2.70	2.78	2.84	2.89	2.93	2.97	3.00	3.02	3.04	3.04	2.97	2.82
50th Percentile	**3.04**	**3.12**	**3.18**	**3.26**	**3.32**	**3.40**	**3.46**	**3.53**	**3.60**	**3.66**	**3.38**	**3.17**
75th Percentile	3.38	3.46	3.53	3.62	3.72	3.82	3.93	4.04	4.15	4.27	3.80	3.51
95th Percentile	3.89	3.96	4.05	4.17	4.29	4.45	4.60	4.78	4.95	5.14	4.41	4.03

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Expected Return Target: Tier I

The table below shows the **percentage** chance of achieving or exceeding the given real return for each portfolio for the 1-, 3-, 5-, and 10-year periods

1 Year	1	2	3	4	5	6	7	8	9	10	Potential Tier I: A	Potential Tier I: B
Target 0%	58	59	60	60	61	61	61	62	62	63	61	59
Target 0.5%	51	52	53	53	54	54	55	56	56	57	54	52
Target 1%	44	45	46	47	47	48	49	50	51	51	48	45
Target 1.5%	37	38	39	40	41	43	43	44	45	46	42	39
Target 2%	31	32	33	34	35	36	38	39	40	41	36	33
Target 3%	20	21	22	23	24	26	27	29	30	32	26	21
3 Years												
Target 0%	63	64	66	67	68	68	69	70	70	71	68	65
Target 0.5%	51	53	55	56	57	59	60	60	61	62	58	54
Target 1%	39	41	42	44	46	48	49	51	52	53	47	42
Target 1.5%	28	29	31	33	35	37	39	40	42	43	36	31
Target 2%	19	20	22	23	25	27	29	31	33	35	27	21
Target 3%	7	8	8	10	11	12	14	16	18	20	12	8
5 Years												
Target 0%	67	69	71	72	73	74	75	76	76	76	74	71
Target 0.5%	52	54	56	58	60	61	63	64	65	66	61	56
Target 1%	37	39	41	43	45	47	49	51	53	54	46	40
Target 1.5%	23	25	27	29	32	34	36	38	40	42	33	26
Target 2%	13	14	16	17	19	22	24	26	29	31	21	15
Target 3%	3	3	4	4	6	7	8	10	12	13	6	3
10 Years												
Target 0%	73	76	78	80	82	82	83	84	84	84	82	77
Target 0.5%	52	55	58	61	63	66	68	69	71	72	65	58
Target 1%	31	34	37	40	43	46	49	51	53	55	45	36
Target 1.5%	15	17	19	22	25	28	31	34	36	39	27	19
Target 2%	6	7	8	10	12	14	16	19	22	24	14	8
Target 3%	0	1	1	1	1	2	3	4	5	7	2	1

RVK

Efficient Frontier: Tiers II and III

The table below shows the range of possible optimal allocations given the selected asset classes and constraints listed under "Min" and "Max". This range illustrates the tradeoff between return and risk; additional return can only be achieved by undertaking additional risk.

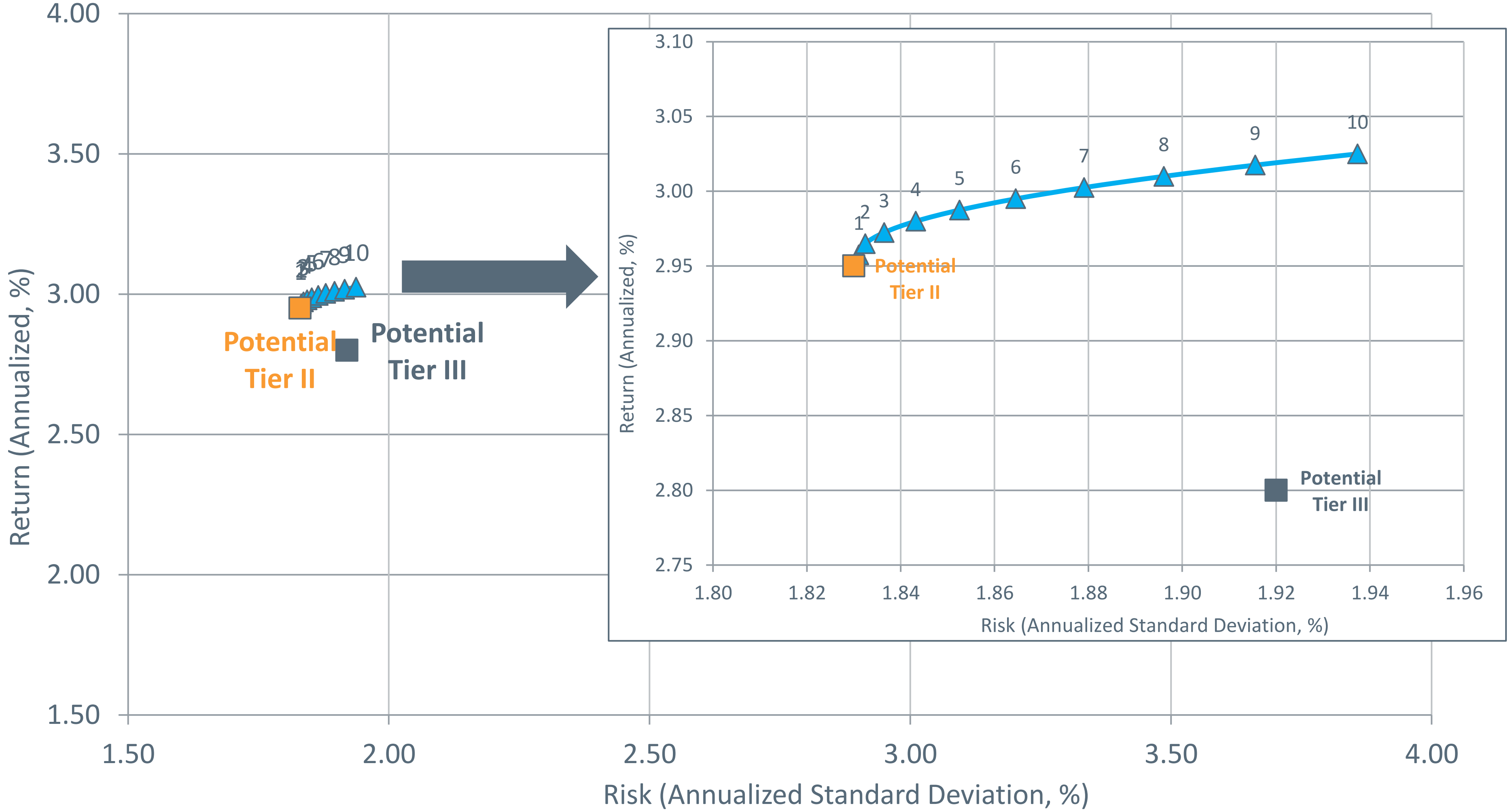
	Min	Max	1	2	3	4	5	6	7	8	9	10	Potential Tier II	Potential Tier III
Low Duration Gov't Fixed Income	0	100	6	10	14	17	21	25	29	32	36	40	0	0
Short-Term TIPS	0	10	10	10	10	10	10	10	10	10	10	10	10	0
PMIA Custom	50	100	84	80	76	73	69	65	61	58	54	50	90	100
Total			100	100	100	100	100	100	100	100	100	100	100	100
Capital Appreciation			0	0	0	0	0	0	0	0	0	0	0	0
Capital Preservation			90	90	90	90	90	90	90	90	90	90	90	100
Alpha			0	0	0	0	0	0	0	0	0	0	0	0
Inflation			10	10	10	10	10	10	10	10	10	10	10	0
Expected Arithmetic Return			**2.96**	**2.96**	**2.97**	**2.98**	**2.99**	**2.99**	**3.00**	**3.01**	**3.02**	**3.03**	**2.95**	**2.80**
Expected Risk (Standard Deviation)			**1.83**	**1.83**	**1.84**	**1.84**	**1.85**	**1.86**	**1.88**	**1.90**	**1.92**	**1.94**	**1.83**	**1.92**
Expected Compound Return			**2.94**	**2.94**	**2.95**	**2.96**	**2.97**	**2.97**	**2.98**	**2.99**	**3.00**	**3.01**	**2.93**	**2.78**
Expected Return (Arithmetic)/Risk Ratio			1.62	1.62	1.61	1.62	1.62	1.61	1.60	1.58	1.57	1.56	1.61	1.46
RVK Expected Eq Beta (LCUS Eq = 1)			0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.01
RVK Liquidity Metric (T-Bills = 100)			94	94	94	93	93	93	92	92	91	91	95	95
Estimated Yield (%)			4.45	4.42	4.39	4.36	4.32	4.29	4.26	4.23	4.20	4.16	4.51	4.58
1-Year 1st Percentile Return (Nominal)			-1.15	-1.13	-1.10	-1.11	-1.10	-1.08	-1.12	-1.14	-1.16	-1.23	-1.08	-1.55
10-Year Median Return (Nominal)			2.92	2.93	2.94	2.95	2.95	2.96	2.96	2.97	2.98	2.99	2.94	2.79
Probability of >0.5% Real Return Over 10 Years			48	48	49	49	49	50	50	51	51	51	48	42

Estimated yields are as of September 30, 2024 and are based on underlying benchmark figures for all assets excluding PMIA. Estimated yield for PMIA is the actual reported yield as of 9/30/2024. 1-year maximum drawdown reflects the 1-year, 1st percentile return.

RVK

Efficient Frontier: Tiers II and III

The figure below illustrates the relationship between risk and return. The risk of each alternative allocation is plotted against the horizontal axis, while the return is measured on the vertical axis. The line connecting the points represents all the optimal portfolios subject to the given constraints and is known as the "efficient frontier." The upward slope of the efficient frontier indicates the direct relationship between return and risk.



Expected Return by Percentile: Tiers II and III

The table below shows the expected nominal return by percentile for each portfolio for the 1-, 3-, 5-, and 10-year periods.

1 Year	1	2	3	4	5	6	7	8	9	10	Potential Tier II	Potential Tier III
1st Percentile	-1.15	-1.13	-1.10	-1.11	-1.10	-1.08	-1.12	-1.14	-1.16	-1.23	-1.08	-1.55
5th Percentile	0.06	0.09	0.11	0.13	0.13	0.13	0.12	0.10	0.09	0.07	0.05	-0.29
25th Percentile	1.75	1.76	1.77	1.77	1.78	1.81	1.82	1.82	1.82	1.81	1.71	1.47
50th Percentile	**2.94**	**2.95**	**2.95**	**2.96**	**2.96**	**2.97**	**2.98**	**2.98**	**3.00**	**3.01**	**2.92**	**2.78**
75th Percentile	4.11	4.12	4.13	4.14	4.14	4.15	4.16	4.18	4.19	4.22	4.15	4.09
95th Percentile	5.86	5.85	5.85	5.86	5.87	5.88	5.91	5.93	5.96	6.00	5.96	6.04
99th Percentile	7.13	7.10	7.10	7.10	7.10	7.11	7.14	7.18	7.23	7.32	7.14	7.33
3 Years												
5th Percentile	1.24	1.27	1.28	1.29	1.29	1.30	1.30	1.29	1.28	1.28	1.26	1.01
25th Percentile	2.26	2.26	2.27	2.28	2.29	2.29	2.29	2.29	2.30	2.30	2.23	2.05
50th Percentile	**2.92**	**2.93**	**2.94**	**2.94**	**2.96**	**2.96**	**2.97**	**2.97**	**2.98**	**2.99**	**2.93**	**2.78**
75th Percentile	3.62	3.63	3.63	3.64	3.64	3.66	3.67	3.69	3.70	3.72	3.65	3.55
95th Percentile	4.64	4.63	4.63	4.64	4.65	4.67	4.68	4.70	4.72	4.73	4.64	4.63
5 Years												
5th Percentile	1.65	1.66	1.67	1.68	1.68	1.68	1.68	1.68	1.67	1.66	1.62	1.39
25th Percentile	2.40	2.41	2.42	2.43	2.44	2.44	2.45	2.45	2.46	2.46	2.40	2.21
50th Percentile	**2.94**	**2.95**	**2.96**	**2.96**	**2.97**	**2.98**	**2.99**	**3.00**	**3.00**	**3.01**	**2.94**	**2.80**
75th Percentile	3.47	3.47	3.47	3.49	3.49	3.51	3.52	3.52	3.53	3.55	3.49	3.38
95th Percentile	4.24	4.23	4.25	4.26	4.27	4.28	4.29	4.31	4.33	4.35	4.28	4.22
10 Years												
5th Percentile	2.01	2.03	2.04	2.05	2.06	2.07	2.07	2.06	2.05	2.05	2.01	1.80
25th Percentile	2.55	2.56	2.57	2.58	2.59	2.59	2.60	2.60	2.60	2.61	2.56	2.39
50th Percentile	**2.92**	**2.93**	**2.94**	**2.95**	**2.95**	**2.96**	**2.96**	**2.97**	**2.98**	**2.99**	**2.94**	**2.79**
75th Percentile	3.30	3.31	3.32	3.32	3.33	3.34	3.35	3.36	3.37	3.38	3.32	3.20
95th Percentile	3.85	3.84	3.85	3.85	3.86	3.87	3.88	3.89	3.91	3.92	3.87	3.79

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Expected Return Target: Tiers II and III

The table below shows the **percentage** chance of achieving or exceeding the given real return for each portfolio for the 1-, 3-, 5-, and 10-year periods

1 Year	1	2	3	4	5	6	7	8	9	10	Potential Tier II	Potential Tier III
Target 0%	57	57	57	57	57	57	57	57	57	58	56	54
Target 0.5%	50	50	50	50	51	51	51	51	51	51	49	47
Target 1%	43	43	43	43	44	44	44	44	44	44	43	41
Target 1.5%	37	37	37	37	37	37	37	37	37	37	36	35
Target 2%	30	30	30	31	31	31	31	31	31	31	29	29
Target 3%	20	20	20	20	20	20	20	20	20	21	19	19
3 Years												
Target 0%	61	61	62	62	62	62	62	62	62	63	60	57
Target 0.5%	49	49	50	50	50	50	50	51	51	51	48	45
Target 1%	38	38	38	38	39	39	39	39	39	39	37	35
Target 1.5%	28	28	28	28	28	28	28	29	29	29	27	25
Target 2%	19	19	19	19	19	19	19	20	20	20	18	16
Target 3%	7	7	7	7	7	7	7	7	7	8	6	6
5 Years												
Target 0%	64	64	65	65	65	65	65	66	66	66	64	59
Target 0.5%	49	49	50	50	50	50	51	51	51	51	49	45
Target 1%	34	34	34	35	35	35	35	36	36	36	34	30
Target 1.5%	22	22	22	23	23	23	23	23	23	24	21	19
Target 2%	13	13	13	13	13	13	14	14	14	14	12	10
Target 3%	3	3	3	3	3	3	4	4	4	4	2	2
10 Years												
Target 0%	69	69	69	70	70	70	71	71	71	71	69	63
Target 0.5%	48	48	49	49	49	50	50	51	51	51	48	42
Target 1%	28	29	29	29	29	30	30	30	31	31	27	23
Target 1.5%	14	14	15	15	15	15	15	15	16	16	13	10
Target 2%	6	6	6	6	6	6	6	6	6	7	5	4
Target 3%	0	0	0	0	0	0	0	1	1	1	0	0

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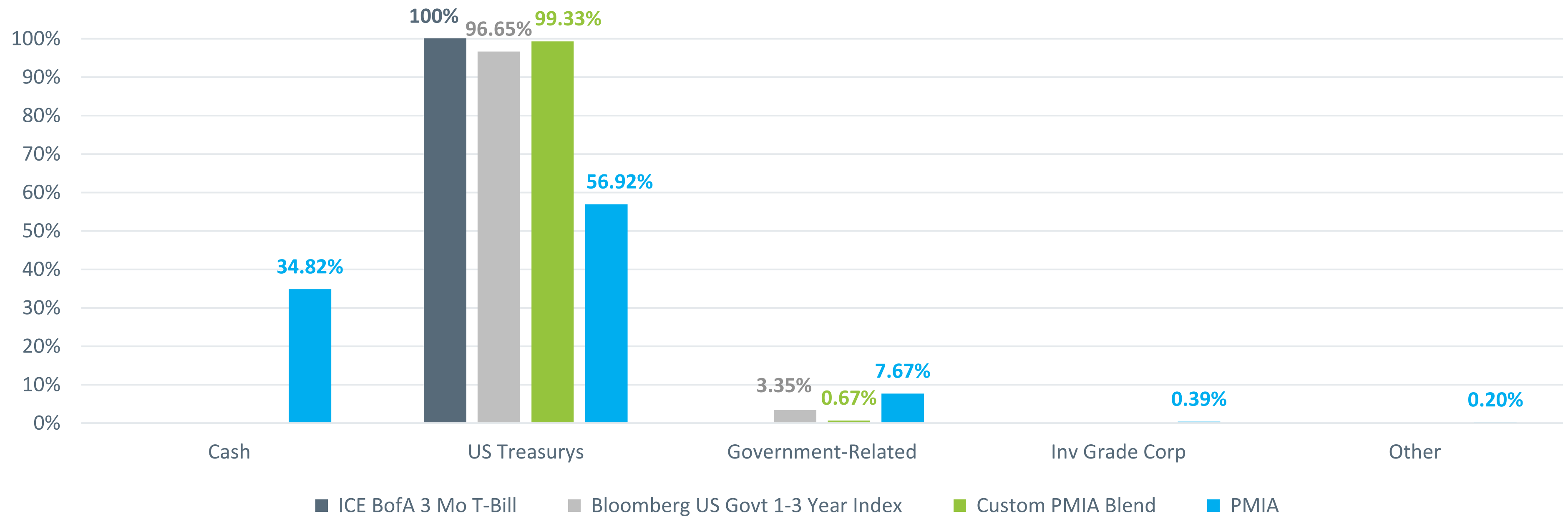
Custom PMIA Blend: Bond Characteristics Comparison

The custom assumption for PMIA consists of 80% cash equivalents and 20% low duration gov't fixed income.

Portfolio Characteristics (as of 9/30/2024)

Asset Class	Cash Equivalents	Low Duration Gov't Fixed Income	Custom PMIA Blend	Current PMIA (as of 9/30)
Underlying Index	ICE BofA 3 Mo T-Bill	Bloomberg US Govt 1-3 Year Index		
Effective Duration	0.23	1.86	0.56	
Yield to Worst	4.57	3.71	4.40	4.58*
Average Maturity	0.24	1.96	0.58	0.63
Average Quality	Aa1	Aa1	Aa1	

Sector Allocations (as of 6/30/2024)



Data is as of 09/30/2024, unless otherwise noted. PMIA sector allocations are bucketed as follows: Cash consists of CDs, Fed Agency Discount Notes, Time Deposits, and Commercial Paper. Government-Related consists of Federal Agency Debentures. Investment Grade Corp consists of Corporate Bonds. Other consists of PMIA Loans. *PMIA YTW shows Average Monthly Yield as of 09/30/2024 and is sourced from https://www.treasurer.ca.gov/pmia-laif/historical/avg_mn_ylds.asp

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HOPE Program Population Distribution Assumptions

Age Group	DSS Count	Count + 10k COVID
Under 5	13,259	15,891
Age 6-11	11,252	13,884
Age 11-15	9,313	11,945
Age 16-17	4,718	5,771
Age 18+	7,633	8,686
Total	**46,175**	**56,175**

Age Group	Year Turning 18	RVK Assumption
Age >1	2043+	2,652 per year*
Age 1	2042	3,178
Age 2	2040	3,178
Age 3	2040	3,178
Age 4	2039	3,178
Age 5	2038	3,178
Age 6	2037	2,777
Age 7	2036	2,777
Age 8	2035	2,777
Age 9	2034	2,777
Age 10	2033	2,777
Age 11	2032	2,389
Age 12	2031	2,389
Age 13	2030	2,389
Age 14	2029	2,389
Age 15	2028	2,389
Age 16	2027	2,885
Age 17	2026	2,885
Age 18+	2023-2025	8,686

DSS Count data was provided by the California Department of Social Services, report released on September 6, 2024.
10,000 COVID-bereaved total is distributed equally across the various age groups. Under 5 assumes 5 ages (1-5) and Age 18+ assumes 2 ages (18-19).
*Reflects the DSS Count average Under 5 age group, without additional COVID-bereaved children.

Pooled Money Investment Account (PMIA) Statutes

California Government Code Section 16430

Eligible securities for the investment of surplus moneys shall be any of the following:

a) Bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

b) Bonds or interest-bearing notes or obligations that are issued by or fully guaranteed as to principal and interest by a federal agency or a United States government-sponsored enterprise, as defined by the Omnibus Budget Reconciliation Act of 1990 (Sec. 13112, Public Law 101-508; 2 U.S.C. Sec. 622(8)).

c) Bonds, notes, or other obligations of this state, or those for which the faith and credit of this state are pledged for the payment of principal and interest.

d) 1. Bonds, notes, or other obligations of a local government of this state, including, but not limited to, any of the following:

   A. A county.
   B. A city.
   C. A city and county.
   D. A metropolitan water district.
   E. A water district.
   F. A water storage district.
   G. An irrigation district.
   H. A municipal utility district.
   I. A school district.

   2. Bonds, notes, or other obligations eligible for investment pursuant to this subdivision shall be within the top three ratings of a nationally recognized statistical rating organization.

e) Bonds, debentures, or other obligations of any of the following:

   1. Issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended (12 U.S.C. Sec. 2001 et seq.).
   2. Issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended (12 U.S.C. Sec. 2001 et seq.).
   3. The Federal Home Loan Bank established under the Federal Home Loan Bank Act (12 U.S.C. Sec. 1421 et seq.).
   4. The Federal National Mortgage Association established under the National Housing Act, as amended (12U.S.C. Sec. 1701 et seq.).
   5. The Federal Home Loan Mortgage Corporation.
   6. Issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act, as amended (16 U.S.C. Sec. 831 et seq.).
   7. Guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act, as amended (15 U.S.C. Sec. 714 et seq.).

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Pooled Money Investment Account (PMIA) Statutes
(Continued)

California Government Code Section 16430

f) Bonds, notes, warrants, and other securities not in default that are the direct obligations of the government of a foreign country that the International Monetary Fund lists as an advanced economy and for which the full faith and credit of that country has been pledged for the payment of principal and interest, if the securities are rated investment grade or its equivalent, or better, by a nationally recognized statistical rating organization. Securities eligible for investment pursuant to this subdivision shall satisfy all of the following:
   1. Be United States dollar denominated with a maximum maturity of five years or less, and eligible for purchase and sale within the United States.
   2. The combined par value of all of the investments authorized by this subdivision do not exceed 1 percent of the total par value of Pooled Money Investment Account assets at the time of purchase.
   3. The government of the foreign country issuing the securities submits to the jurisdiction of a federal or state court in the United States when disputes arise related to the investments.

g) 1. Commercial paper of "prime" quality as defined by a nationally recognized statistical rating organization that rates these securities, if the commercial paper is issued by a federally or state-chartered bank or a state-licensed branch of a foreign bank, corporation, trust, or limited liability company that is approved by the Pooled Money Investment Board as meeting the conditions specified in either subparagraph (A) or subparagraph (B):
      A. Both of the following conditions:
         i. Organized and operating within the United States.
         ii. Having total assets in excess of five hundred million dollars ($500,000,000).
      B. Both of the following conditions:
         i. Organized within the United States as a federally or state-chartered bank or a state-licensed branch of a foreign bank, special purpose corporation, trust, or limited liability company.
         ii. Having programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
   2. A purchase of eligible commercial paper shall not do any of the following:
      A. Exceed 270 days maturity.
      B. Represent more than 10 percent of the outstanding paper of an issuing federally or state-chartered bank or a state-licensed branch of a foreign bank, corporation, trust, or limited liability company.
      C. Exceed 30 percent of the resources of an investment program.
   3. At the request of the Pooled Money Investment Board, an investment made pursuant to this subdivision shall be secured by the issuer by depositing with the Treasurer securities authorized by Section 53651 of a market value at least 10 percent in excess of the amount of the state's investment.

h) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker's acceptances, that are eligible for purchase by the Federal Reserve System.

i) Negotiable certificates of deposits issued by a federally or state-chartered bank or savings and loan association, a state-licensed branch of a foreign bank, or a federally or state-chartered credit union. For the purposes of this section, negotiable certificates of deposits are not subject to Chapter 4 (commencing with Section 16500) and Chapter 4.5 (commencing with Section 16600).

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Pooled Money Investment Account (PMIA) Statutes
(Continued)

California Government Code Section 16430

j) The portion of bank loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration.

k) Bank loans and obligations guaranteed by the Export-Import Bank of the United States.

l) Student loan notes insured under the Guaranteed Student Loan Program established pursuant to the Higher Education Act of 1965, as amended (20 U.S.C. Sec. 1001 et seq.) and eligible for resale to the Student Loan Marketing Association established pursuant to Section 133 of the Education Amendments of 1972, as amended (20U.S.C. Sec. 1087-2).

m) Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation, the Government Development Bank for Puerto Rico, the European Bank for Reconstruction and Development, or the European Investment Bank.

n) Bonds, debentures, and notes issued by corporations organized and operating within the United States. Securities eligible for investment pursuant to this subdivision shall be within the top three ratings of a nationally recognized statistical rating organization.

o) Negotiable Order of Withdrawal Accounts (NOW Accounts), invested in accordance with Chapter 4 (commencing with Section 16500).

p) Shares of any money market mutual fund subject to registration by, and under the regulatory authority of, the United States Securities and Exchange Commission, provided that all of the following conditions are met:

1. The money market mutual fund invests in securities and obligations described in one or more of the following: subdivision (a), (b), or (e) of this section or repurchase agreements or reverse repurchase agreements described in Section 16480.4.
2. The financial institution issuing shares of the money market mutual fund has at least five years of experience investing in the types of securities and obligations being purchased by the state and has assets undermanagement in the money market mutual fund in excess of ten billion dollars ($10,000,000,000).
3. The money market mutual fund has attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.
4. The financial institution does not impose a commission on the purchase or sale of fund shares by the state.
5. The state does not purchase more than 10 percent of a money market mutual fund’s total assets.
6. The state does not invest more than 10 percent of the Pooled Money Investment Account’s funds in any single money market mutual fund meeting the requirements of this subdivision.

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Pooled Money Investment Account (PMIA) Statutes
(Continued)

California Government Code Section 16480.4

1. Amounts available for investment under this article may be invested and reinvested by the State Treasurer in any securities described in Sections 16430 of this code or in loans to the General Fund as provided in Section 16310 of this code. Such securities may be sold by the State Treasurer or exchanged by him for other securities of the kind authorized to be purchased hereunder, if, in his discretion, such sale or exchange appears to be in the best interests of the state. The State Treasurer may enter into repurchase agreements or reverse repurchase agreements of any securities described in Section 16430.
2. The State Treasurer may hire or engage the services of an investment analyst to assist in such investment decisions.
3. For purposes of this section, the term "repurchase agreement" means a purchase of securities by the State Treasurer pursuant to an agreement by which the seller will repurchase such securities on or before a specified date and for a specified amount.
4. For purposes of this section, the term "reverse repurchase agreement" means a sale of securities by the State Treasurer pursuant to an agreement by which the State Treasurer will repurchase such securities on or before a specified date and for a specified amount.

Pooled Money Investment Account (PMIA) Authorized Investments

Investment Type	Maximum Maturity	Maximum % of Portfolio	Maximum Per Name	Maximum Per Maturity
Agencies (Federal and Supranational)	5 years	None	None	None
Bankers Acceptances (Domestic and Foreign)	180 days	None	None	None
Certificates of Deposits	5 years	None	None	None
Collateralized Time Deposits	1 year	None	(1)	None
Commercial Paper	270 days	30%	10%	None
Corporate Bonds/Notes	5 years	None	None	None
Foreign Government Bonds/Notes	5 years	1%	None	None
Money Market Mutual Funds	Open ended	10%	10%	None
Negotiable Order of Withdrawal (NOW) Accounts	Open ended	5%	(3)	None
Repurchases (RP) and Reverse Repurchases (RRP)	1 year	(2)	None	None
U.S. Treasury Securities	5 years	None	None	None

(1) Shall not exceed the net worth of the institution or an amount considered prudent; whichever is less.
(2) RRP is limited to 10% of the current portfolio.
(3) Shall not exceed the net worth of the institution.

Source: PMIA Investment Policy, January 1, 2024.

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PORTLAND BOISE CHICAGO NEW YORK

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