

INVESTMENT POLICY STATEMENT

FOR

**METROPOLITAN TRANSPORTATION COMMISSION
INTERNAL REVENUE CODE SECTION 115 TRUST**

[DATE]

Metropolitan Transportation Commission (“MTC”) has adopted an Internal Revenue Code Section 115 Trust (“Trust”). MTC’s participation in the Trust will be used to invest monies to: (1) provide seed funding for the pension account to backstop changes to California Public Employees’ Retirement System (“CalPERS”) without further impact on operational MTC budgets (referred to as “Pension Prefunding,”) and (2) to provide funding for other post-employment benefits (OPEB) for those employees who meet the age and service requirements. Within the Trust, there shall be two separate accounts established for the two separate purposes described above. The Investment Policy Statement (“Policy Statement”) for the Trust is described below.

Purpose

The main investment objective of MTC’s investment of assets in the Trust is to achieve long-term growth of the MTC assets invested in the Trust by maximizing long-term rate of return on investments and minimizing risk of loss to fulfill MTC’s current and long-term post-employment benefits obligations.

The purpose of this Policy Statement is to achieve the following:

1. Document MTC’s investment objectives, performance expectations and investment guidelines for Trust assets.
2. Establish an appropriate investment strategy for managing all MTC’s assets invested in the Trust, including an investment time horizon, risk tolerance ranges and asset allocation to provide sufficient diversification and overall return over the long-term time horizon of the Trust.
3. Establish investment guidelines to control overall risk and liquidity.
4. Establish periodic performance reporting requirements to monitor investment results and confirm that the investment policy is being followed.
5. Comply with fiduciary, prudence, due diligence and legal requirements for Trust assets.

Investment Authority

MTC has appointed a Plan Administrator (the “Administrator”) who is MTC’s Chief Financial Officer to oversee certain policies and procedures related to the operation and administration of MTC’s assets invested in the Trust. The Administrator will have authority to implement the investment policy and guidelines in the best interest of MTC to best satisfy the purposes of MTC’s Trust investment. In implementing this Policy Statement, the Administrator believes it may delegate certain functions to:

1. A trustee appointed by the Trust (Trustee), such as a bank trust department, if the Trust does not have its own Trustee, to assume fiduciary responsibility for the administration of Trust assets.

Further, the Administrator may choose to engage the Trustee in a discretionary capacity. Such Trustee may then choose to delegate investment management responsibilities to an SEC-registered investment advisor, as evidenced by a written contract between the two parties.

2. A custodian selected by the Trust to maintain possession of physical securities and records of street name securities owned by the Trust, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Trust accounts. The role of the Trustee and custodian may be performed by the same entity if said entity is qualified to perform both functions.
3. An investment advisor ("Advisor") to assist the Administrator in the investment process and to maintain compliance with this Policy Statement. The Advisor may assist the Administrator in establishing investment policy objectives and guidelines. The Advisor will adjust asset allocation for the Trust accounts subject to the guidelines and limitations set forth in this Policy Statement. The Advisor will also select investment managers ("Managers") and strategies consistent with its role as a fiduciary for the Trust. The investment vehicles allowed may include mutual funds, commingled trusts, separate accounts, limited partnerships and other investment vehicles deemed to be appropriate by the Advisor. The Advisor is also responsible for monitoring and reviewing investment managers, measuring and evaluating performance; and other tasks as deemed appropriate in its role as Advisor for Trust assets. The Advisor may also select investments with discretion to purchase, sell, or hold specific securities, such as Exchange Traded Funds, that will be used to meet the Trust's investment objectives. The Advisor shall never take possession of securities, cash or other assets of the Trust, all of which shall be held by the custodian. The Advisor must be registered with the Securities and Exchange Commission. The Advisor may be affiliated with the custodian so long as there is an appropriate segregation of duties and data.

As noted above, the Trust may choose to engage its Trustee in a discretionary capacity. Such Trustee may then choose to delegate investment management responsibilities to an SEC-registered investment advisor ("Advisor"), who shall accept responsibility for performing the functions as described above.

4. Specialists such as attorneys, auditors, actuaries and, retirement Trust consultants to assist the Administrator in meeting its responsibilities and obligations to administer Trust assets prudently.

Statement of Investment Objectives

The investment objectives of the Trust are as follows:

1. To invest assets of the Trust in a manner consistent with the following fiduciary standards: (a) all transactions undertaken must be for the sole interest of Trust beneficiaries, and (b) assets are to be diversified in order to minimize the impact of large losses from individual investments.
2. To provide funding and anticipated withdrawals on a continuing basis for payment of benefits and reasonable expenses of operation of the Trust.
3. To enhance the value of Trust assets in real terms over the long-term through asset appreciation and income generation, while maintaining a reasonable investment risk profile.
4. Subject to performance expectations over the long-term, to minimize principal fluctuations over the Time Horizon (as defined below).
5. To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the investment objective set forth in this Policy Statement under the section labeled "Performance Expectations".

Investment Guidelines

Within this section of the Policy Statement, several terms will be used to articulate various investment concepts. The descriptions are meant to be general and may share investments otherwise considered to be in the same asset class. They are:

"Equity Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on capital appreciation. Investments within the "Equity Assets" category can include income and risk mitigating characteristics, so long as the predominant investment risk and return characteristic is capital appreciation. Examples of such investments or asset classes are: publicly traded domestic and international equities or equity funds and publicly traded investments, focused on risk mitigation and equity-like returns.

"Fixed Income Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on income generation. Investments within the "Fixed Income Assets" category can include capital appreciation and risk mitigating characteristics, so long as the primary investment risk and return characteristic is income generation. Examples of such investments or asset classes are: fixed income securities or funds that are at investment grade or below investment grade, along with including inflation protected securities, guaranteed investment contracts and certain other investments focused on interest rate risk mitigation or income-like returns.

"Listed Real Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on real returns, net of inflation. Investments within the "Listed Real Assets" category may include but are not limited to: real estate investment trusts (REITS) listed infrastructure, certain equity investments, commodity funds, and liquid alternatives. Depending on the underlying characteristics of the particular investment, listed real assets may be qualified broadly as either "Equity Assets" or "Fixed Income Assets".

Time Horizon

The Trust's investment objectives are based on a long-term investment horizon ("Time Horizon") of five years or longer. Interim fluctuations should be viewed with appropriate perspective. The Trust has adopted a long-term investment horizon such that the risks and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets.

Liquidity and Diversification

In general, the Trust may hold some cash, cash equivalent, and/or money market funds for near-term benefits and expenses (the "Trust Distributions"). Remaining assets will be invested in longer-term investments and shall be diversified with the intent of minimizing the risk of long-term investment losses. Consequently, the total portfolio will be constructed and maintained to provide diversification with regard to the concentration of holdings in individual issues, issuers, countries, governments or industries.

Asset Allocation

The Administrator believes that to achieve the greatest likelihood of meeting MTC's investment objectives with respect to the adoption of the Trust and the best balance between risk and return for optimal diversification, assets will be invested in accordance with the targets for each asset class based on the Administrator's directive in writing.

Rebalancing Philosophy

The asset allocation range established by this Policy Statement represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside Policy Statement ranges. When allocations breach the specified ranges, the Advisor will rebalance the assets within the specified ranges. The Advisor may also rebalance based on market conditions.

Risk Tolerance

Subject to investment objectives and performance expectations, the Trust will be managed in a style that seeks to minimize principal fluctuations over the established Time Horizon.

Performance Expectations

Over the long-term, five years or longer, the performance objective for the OPEB account will be to achieve an average total annual rate of return that is equal to or greater than OPEB's actuarial discount rate. Similarly, over the long-term, five years or longer, the performance objective for the Pension Prefunding account will be to achieve an average total annual rate of return that is equal to or greater than the pension prefunding account's total portfolio blended benchmark.

Additionally, it is expected that the annual rate of return on Trust assets will be commensurate with the then prevailing investment environment. Measurement of this return expectation will be judged by reviewing returns in the context of industry standard benchmarks, peer universe comparisons for individual Trust investments and blended benchmark comparisons for the Trust in its entirety.

Selection of Investment Managers

The Advisor shall prudently select appropriate Managers to invest the assets of the Trust. Managers must meet the following criteria:

- The Manager must provide historical quarterly performance data compliant with Global Investment Performance Standards (GIPS®), Securities & Exchange Commission (“SEC”), Financial Industry Regulatory Agency (“FINRA”) or industry recognized standards, as appropriate.
- The Manager must provide detailed information on the history of the firm, key personnel, support personnel, key clients, and fee schedule (including most-favored-nation clauses). This information can be a copy of a recent Request for Proposal (“RFP”) completed by the Manager or regulatory disclosure.
- The Manager must clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- The investment professionals making the investment decisions must have a minimum of three (3) years of experience managing similar strategies either at their current firm or at previous firms.
- Where other than common funds such as mutual funds or commingled trusts are utilized, the Manager must confirm receipt, understanding and adherence to this Policy Statement and any investment specific policies by signing a consent form provided to the Manager prior to investment of Trust assets.

Direct Investments by Advisor

Every effort shall be made, to the extent practical, prudent and appropriate, to select investments that have investment objectives and policies that are consistent with this Policy Statement (as outlined in the following sub-sections of the “Guidelines for Portfolio Holdings”). However, given the nature of the investments, it is recognized that there may be deviations between this Policy Statement and the objectives of these investments.

Limitations on Portfolio Holdings

EQUITIES

No more than 5% of the total equity portfolio valued at market may be invested in the common equity of any one corporation; ownership of the shares of one company shall not exceed 5% of those outstanding; and not more than 40% of Equity valued at Market may be held in any one sector, excluding Mutual Funds and/or ETFs, as defined by Bloomberg (BB) Sector standards.

Domestic Equities. Other than the above constraints, there are no quantitative guidelines as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the Manager.

International Equities. The overall non-U.S. equity allocation should include a diverse global mix that is comprised of the equity of companies from multiple countries, regions and sectors.

FIXED INCOME

Fixed income securities of any one issuer shall not exceed 5% of the aggregate fixed income portfolio at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies. The aggregate fixed income portfolio may consist of two components: (1) an investment grade portfolio comprised of individual securities and/or mutual funds and (2) a below investment grade portfolio, comprised of mutual funds. Details on the two portfolios are included below:

Investment Grade Portfolio

Eligible Investments

- Debt obligations of the U.S. Government, its agencies, and Government Sponsored Enterprises
- Mortgage-Backed Securities (MBS)
- Asset Backed Securities (ABS)
- Collateralized Mortgage Obligations (CMO)
- Commercial Mortgage-Backed Securities (CMBS)
- Corporate debt securities issued by U.S. or foreign entities including, but not limited to, limited partnerships, equipment trust certificates and enhanced equipment trust certificates.
- Municipal Bonds
- Fixed income mutual funds.

Quality

The investment grade portfolio will maintain a minimum weighted average effective quality of A- at all times. At the time of purchase, individual securities in the investment grade portfolio shall have a minimum effective quality rating of BBB-.

For purposes of determining an effective rating, when three agencies rate a security (S&P, Moody's, Fitch) the middle rating will be used. When only two of the three agencies rate security the lower of the two ratings will be used. When only one agency rates a security that rating will be used.

Duration

The manager will maintain the duration of the investment grade portfolio within +/- 25% of the Bloomberg US Aggregate Bond Index duration at all times for the investment grade portfolio.

Below Investment Grade

In addition to the investment grade portfolio described above, MTC may, at times, also maintain an allocation to below investment grade holdings. Permitted investments shall include below investment grade mutual funds and/or exchange traded funds.

Aggregate Fixed Income Portfolio:

The overall rating of the aggregate fixed income portfolio (to include the investment grade portfolio and the below investment grade portfolio) shall be investment grade, based on the rating of a Nationally Recognized Statistical Rating Organization ("NRSRO").

LISTED REAL ASSETS

Listed Real Assets may consist of but are not limited to publicly traded real estate (REIT), publicly traded global infrastructure and infrastructure related companies and listed commodity funds.

CASH EQUIVALENTS

Cash equivalents shall be held in funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

Prohibited Investments

Except for purchase within authorized investments, securities having the following characteristics are not authorized and shall not be purchased: letter stock and other unregistered securities, direct commodities or direct commodity contracts or private placements. Further, derivatives, options, or futures for the sole purpose of direct portfolio leveraging are prohibited. Direct/physical ownership of real estate, natural resource properties such as oil, gas or timber and the purchase of collectibles is also prohibited.

Safekeeping

All assets of the Trust shall be held by a custodian approved by the Administrator for safekeeping of Trust assets. The custodian shall produce statements on a monthly basis, listing the name and value of all assets held, and the dates and nature of all transactions in accordance with the terms in the Trust Agreement. Investments of the Trust not held as liquidity or investment reserves shall, at all times, be invested in interest-bearing accounts. Investments and portfolio securities may not be loaned.

Control Procedures

Review of Investment Objectives

The Advisor shall review annually and report to the Administrator the appropriateness of this Policy Statement for achieving the Trust's stated objectives. It is not expected that this Policy Statement will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in this Policy Statement.

Review of Investment Performance

The Advisor shall report on a quarterly basis to the Administrator to review the investment performance of the Trust. In addition, the Advisor will be responsible for keeping the Administrator advised of any material change in investment strategy, Managers, and other pertinent information potentially affecting performance of the Trust.

The Advisor shall compare the investment results on a quarterly basis to appropriate peer universe benchmarks, as well as market indices in both equity and fixed income markets. Examples of benchmarks that may be used include, but are not limited to, the Russell 3000 Index for Domestic Equity, MSCI ACWI ex-U.S. Index for International Equity, MSCI U.S. REIT Index for Listed REITs, and MSCI World Core Infrastructure Index for Public Infrastructure. The Bloomberg U.S. Aggregate Bond Index will be used to benchmark the fixed income portfolio. Any additional asset classes and strategies will be benchmarked against appropriate indices depending on the specific characteristics of the strategies and funds used. .

Voting of Proxies

The Administrator recognizes that proxies are a significant and valuable tool in corporate governance. The voting rights of individual stocks held in separate accounts or collective, common, or pooled funds will be exercised by the investment managers in accordance with their own proxy voting policies. The voting rights of funds will be exercised by the Advisor.

Adoption of Investment Policy Statement

Any changes and exceptions to this Policy Statement will be made in writing by the Administrator.