

INVESTMENT POLICY FOR RESERVE ASSETS

GENERAL PHILOSOPHY

The Board of Directors of Cal South has delegated to its Finance Committee the authority to determine investment objectives, policy and guidelines for the investment of Cal South reserve assets.

It is the intent of Cal South to see that all reserve assets are invested with the care, skill, and diligence that a prudent person acting in his/her capacity would employ, and according to the rules, regulations, and laws currently in force governing the investment of such assets.

The Finance Committee recognizes that Cal South must provide adequate and necessary reserves to fund both its operations and its future plans. It also sees the necessity for the principal to grow through both its own investment return and new additions to Cal South's reserves in order to maintain the purchasing power of future income and appreciation.

The long-term stated objective is to maximize investment return with the least amount of risk through a combination of capital appreciation and income. Risk should be decreased through the diversified investment in equities, variable and fixed income securities, and other Finance Committee approved investments. Diversification shall also be required among asset group classes. Though it is the intent of the Finance Committee to achieve a long-term above average investment return, that intent does not include taking extraordinary risks or engaging in investment practices not commonly considered prudent.

It is the Finance Committee's determination, approved by the Board of Directors, that the maximum amount of reserves shall be equal to six (6) months expenditures based on Cal South's anticipated budget, plus any additional reserve amounts for special purposes, as approved by the Board.

DIVERSIFICATION - ASSET CLASSES - STRATEGIC ALLOCATION

Diversification shall be accomplished by the use of a strategic allocation of assets among various different assets classes. Assets classes may, but are not required to, include any or all of the following asset classes:

- Domestic large capitalization equities
- Domestic small capitalization equities
- International equities
- Domestic fixed income securities
- Domestic variable income securities
- U.S. governmental fixed income obligations
- Cash and money market investments

The strategic allocation of reserve assets among the various asset classes shall be determined by the Finance Committee, in consultation with its investment advisers. No specific asset allocation is mandated; however, the allocation shall be reviewed periodically and adjusted as the Finance Committee and its investment advisers consider prudent.

PERFORMANCE EXPECTATIONS

The desired investment objective is a long-term rate of return on invested reserve assets that is at least 1.5% greater than the rate of inflation, as measured by the Consumer Price Index for Los Angeles-Orange-San Bernardino Counties.