INVESTMENT POLICY

I. PURPOSE

This policy is intended to provide guidelines for the prudent investment of Pioneer Community Energy's (Pioneer) surplus money in its treasury (hereinafter "Investment Cash") and to outline policies for maximizing the efficiency of Pioneer's Investment Cash management system. The ultimate goal is to enhance the economic status of Pioneer while protecting its pooled Investment Cash.

II. SCOPE

This investment policy applies to all liquid financial assets of Pioneer, as set forth in the State Government Code, Sections 53600 et seq., with the following exception:

> Proceeds of debt issuance shall be invested in accordance with Pioneer's general investment philosophy as set forth in this policy; however, such proceeds are to be invested pursuant to the permitted investment provisions of their specific bond indentures.

III. DEFINITIONS

"Bankers' Acceptance (BA)" - A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

"Broker" - A broker brings buyers and sellers together for a commission.

"Certificate of Deposit" – A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs are typically negotiable. CD's may be eligible for FDIC insurance.

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“Collateral” - Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

“Custody” - A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

“Delivery vs. Payment (DVP)” - Delivery of securities with a simultaneous exchange of money for the securities.

“Diversification” - Dividing investment funds among a variety of securities offering independent returns and risk profiles.

“Federal Home Loan Banks (FHLB)” - Government sponsored wholesale banks which lend funds and provide correspondent banking services to member commercial banks, thrifty institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

“Federal Home Loan Mortgage Corporation (FHLMC)” – The FHLMC was created under the Federal Home Loan Mortgage Act, Title III of the Emergency Home Finance Act of 1970 as a stockholder owned government-sponsored enterprise. Freddie Mac, as the corporation is called, is charged with providing stability and assistance to the secondary home mortgage market by buying first mortgages and participation interests and reselling these securities in the form of guaranteed mortgage securities. Although agency obligations are not explicitly guaranteed by the federal government, the rating agencies believe that in the unlikely event of financial difficulties, the federal government will support the agency to the extent necessary to provide for full and timely payment on their securities.

"Federal National Mortgage Association (FNMA)" - FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

"Government National Mortgage Association (GNMA)" – Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by the full faith and credit of the U.S. Government. Ginnie Mae securities, are backed by the FHA, VA, or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

"Interest Rate" - The annual yield earned on an investment, expressed as a percentage.

"Liquidity" - Refers to the ability to rapidly convert an investment into cash with minimal risk of losing some portion of principal and/or interest.

"Master Repurchase Agreement" - A written contract covering all future transactions between the parties to repurchase and/or reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

“Maturity” - The date upon which the principal or stated value of an investment becomes due and payable.

“Money Market” - The market in which short-term debt instruments (bills, commercial paper, banker’s acceptances, etc.) are issued and traded.

“Municipal Securities of Local Agencies” – Debt securities issued by states, cities, counties and other governmental entities to fund day-to-day obligations and to finance capital projects. The purchase of municipal securities is a loan to the bond issuer in exchange for regular interest payments and the return of the original investment.

“Prudent Investor” - An investment standard. The trustee may invest in a security if it is one which would be brought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

“Rate of Return” - The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

“Repurchase Agreement (RP or REPO)” - A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate them for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

"Reverse Repurchase Agreement (Reverse REPO)" - A transaction where the seller (City) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

"Risk" - Degree of uncertainty of return on an asset.
"Treasury Bills" – A non-interest-bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

"Treasury Bonds" - Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than ten years.

"Treasury Notes" - Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to ten years.

"Yield" - The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

"Yield to Maturity" - The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

IV. POLICY

A. OVERVIEW

i. It is the policy of Pioneer to invest public funds in a manner which will provide a sound investment return with maximum security while meeting the daily cash flow demands of Pioneer and conforming to all state and local statutes governing the investment of public funds. Pioneer's investment policy has three objectives: (1) protect principal, (2) provide for liquidity needs, and (3) obtain the most reasonable rate of return possible within the first two objectives. Pioneer operates its investment activities under the “prudent investor” standard (see discussion below). This affords a broad spectrum of investment opportunities so long as the investment is deemed prudent and is permissible under current state and local law.

B. PRUDENT INVESTMENT STANDARD

i. The Pioneer Board and all persons authorized to make investment decisions on behalf of Pioneer are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, prudence, and diligence under the circumstances then prevailing, including but not limited to, the general economic conditions and the anticipated needs of Pioneer, 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 Pioneer. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

ii. It is Pioneer’s full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars. However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized that, in a well-diversified investment portfolio, occasional sales and measured gains or losses may be inevitable and must be considered with the context of the overall investment program objectives and the resultant long-term rate-of-return.

iii. Pioneer's Treasurer and other individuals assigned to manage the investment portfolio, acting with the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

C. OBJECTIVES

i. Pioneer's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling Pioneer to invest Investment Cash to the fullest extent possible. Pioneer strives to obtain the most reasonable return possible as long as investments meet the criteria for safety and liquidity.

ii. SAFETY
Safety of principal is the foremost objective of the investment program. Investments of Pioneer shall be undertaken in a manner which seeks to ensure the preservation of principal in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

iii. LIQUIDITY
Pioneer's investment portfolio shall remain sufficiently liquid to enable Pioneer to meet all operating requirements which might be reasonably anticipated. This goal shall be achieved by maintaining a prudent portion of Pioneer's portfolio in liquid, short-term instruments which can readily be converted to cash if necessary.

iv. <u>RETURN ON INVESTMENT</u>
Pioneer's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with Pioneer's investment risk constraints and the cash flow characteristics of the portfolio. Pioneer will attempt to obtain the most reasonable return possible when selecting an investment, provided the criteria for safety and liquidity are met.

D. DELEGATION OF AUTHORITY

i. Authority to manage Pioneer's investment program is derived from California Government Code Sections 6500 and 53600 et seq.

ii. Pioneer's Board is responsible for the management of Pioneer's funds, including the administration of this investment policy. In accordance with California Government Code Section 53607, the Pioneer Board has authorized Pioneer's Treasurer to invest on behalf of Pioneer, to manage Pioneer's investment program consistent with this investment policy, and to maintain a system of internal controls to regulate the activities of subordinate officials. Such procedures will include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

iii. Pioneer may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of Pioneer's investment portfolio in a manner consistent with Pioneer's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

E. PUBLIC TRUST

i. All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worth of the public trust. In a diversified portfolio it must be recognized that occasional measured losses are inevitable and must be considered with the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

F. ETHICS AND CONFLICTS OF INTEREST

i. Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program or impairs their ability to make impartial investment decisions. Officers and employees shall disclose to Pioneer's Treasurer any material interests in financial institutions with which they conduct business, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio. Officers and employees shall also refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of Pioneer. Additionally, Pioneer's Treasurer and other key finance personnel are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission.

G. QUALIFIED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

i. The Treasurer will determine which financial institutions are authorized to provide investment services to Pioneer. Pioneer shall transact business only with qualified banks, savings and loans, and broker/dealers. The Treasurer through due diligence shall determine whether such authorized broker/dealers are reputable and trustworthy, knowledgeable, and experienced in Public Agency investing and able to meet all of their financial obligations. These institutions may include 'primary' dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15c3-1 (uniform net capital rule).

ii. In accordance with Section 53601.5, institutions eligible to transact investment business with Pioneer include:
   a) Institutions licensed by the state as a broker-dealer.
   b) Institutions that are members of a federally-regulated securities exchange.
   c) Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
   d) Nationally or state-chartered banks.
   e) The Federal Reserve Bank.
   f) Direct issuers of securities eligible for purchase.

iii. Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the Treasurer, except where Pioneer utilizes an external investment adviser in which case the Treasurer may rely on the adviser for selection. Pioneer shall send a copy of the current investment policy to all broker/dealers approved to do business with Pioneer. Confirmation of receipt of this policy shall be considered evidence that the dealer understands Pioneer's investment policies and intends to sell Pioneer only appropriate investments authorized by this investment policy.

iv. Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

v. Selection of broker/dealers used by an external investment adviser retained by the Pioneer will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

H. AUTHORIZED INVESTMENTS

i. Investment of Pioneer funds is governed by the California Government Code Sections 53600 et. seq. Within the context of code limitations, the following investments and their respective additional limitations are authorized as listed below. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. Percentage holding limits and minimum credit criteria listed in this section apply at the time the security is purchased.

a) United States Treasury Bills, Bonds, and Notes are those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no dollar amount or percentage limitation of the portfolio which can be invested in this category, provided that the maximum maturity is five (5) years.

b) Federal Agency or United States government-sponsored enterprise obligations, participations or other instruments, such as but not exclusively, issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Association (FHLMC) whose principal and interest is fully guaranteed by federal agencies or United States government-sponsored enterprises. There is no dollar amount or percentage limitation of the portfolio which can be invested in this category.

c) Local Agency Investment Fund (LAIF) which is a State of California managed investment pool may be used as permitted by California State Government Code, Title 2, Division 4, Part 2, Chapter 2, Article 11, commencing with section 16429.1. Pioneer may invest up to the maximum amount permitted by LAIF. LAIF's investments in instruments prohibited by or not specified in Pioneer's policy do not exclude the investment in LAIF itself from Pioneer's list of authorized investments, provided LAIF's reports allow the Treasurer to adequately judge the risk inherent in LAIF's portfolio.

d) Shares of Beneficial Interest issued by a Joint Powers Authority, including the Investment Trust of California, CalTRUST which is a Joint Powers Authority managed investment pool permitted as an investment type by California State Government

Code, Section 6500 and 6509.7. Pioneer can invest in this category, provided Pioneer is a member of the Joint Powers Authority and therefore a voting member. Each of the Short-Term, Medium-Term or Long-Term Account managed by CalTRUST is an eligible investment. Investments in any one fund or in the aggregate of this investment type, shall not exceed 30% of Pioneer's investment portfolio at the time of purchase.

e) Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as Bankers' Acceptances, provided that they are issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one nationally recognized statistical rating organization (NRSRO); or long-term debt obligations which are rated in a rating category of "A" or its equivalent or better by at least one NRSRO. Bankers' acceptances purchased may not exceed 180 days to maturity or 40% of the Pioneer's Investment Cash at the time of purchase. Additionally, no more than 5% of the portfolio may be invested in any single issuer.

f) Commercial paper provided that the securities are issued by an entity that meets all of the following conditions in paragraphs (1) or (2) and other requirements specified below:

1. Securities issued by corporations:
    a. A corporation organized and operating in the United States with assets more than $500 million.
    b. The securities are rated "A-1" or its equivalent or better by at least one NRSRO.

c. If the issuer has other debt obligations, they must be rated in a rating category of "A" or its equivalent or better by at least one NRSRO.

2. Securities issued by other entities:
    a. The issuer is organized within the United States as a special purpose corporation, trust, or limited liability company.
    b. The securities must have program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.
    c. The securities are rated "A-1" or its equivalent or better by at least one NRSRO.
3. Purchases of commercial paper may not exceed 25% of Pioneer's Investment Cash, nor may those purchases exceed 270 days to maturity, nor represent more than 10% of the outstanding paper of the issuing corporation. Investment in any one institution may not exceed more than 5% of the Pioneer's Investment Cash at the time of purchase.

g) Negotiable certificates of deposit issued by nationally or state-chartered banks, a savings association or federal association, a state or federal credit union, or by a federally licensed or state licensed branch of a foreign bank. The amount of the negotiable certificate of deposit insured up to the FDIC limit does not require any credit ratings. Any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of "A" or its equivalent or better by at least one NRSRO. Purchases of negotiable certificates of deposit may not exceed 30% of the Pioneer's Investment Cash at the time of purchase. Investment in any one institution may not exceed more than 5% of Pioneer's Investment Cash at the time of purchase. The maximum maturity may not exceed five (5) years.

h) Repurchase agreements which specify terms and conditions may be transacted with banks and broker/dealers. Repurchase agreements must be collateralized with securities authorized under California Government Code. Investment in repurchase agreements may not exceed 20% of the Pioneer's Investment Cash at the date entered into. The maturity of the repurchase agreements shall not exceed 90 days. The market value of the securities used as collateral for the repurchase agreements shall be monitored by the investment staff and shall not be allowed to fall below 102% of the value of the repurchase agreement. A Master Repurchase Agreement must be executed with the bank or dealer prior to investing in a Repurchase Agreement.

i) Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 25% of the investment portfolio may be invested in this investment type. Investment in any one institution may not exceed more than 5% of the Pioneer's Investment Cash at the time of purchase. The maximum maturity may not exceed five (5) years.

j) Medium Term Corporation Notes, provided that the issuer is a corporation organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. The maximum maturity may not exceed five (5) years. Securities eligible for investment shall be rated in a rating category of "A" or its equivalent or better by at least one NRSRO. Purchase of medium-term notes may not exceed 30% of the Pioneer's Investment Cash at the time of purchase and no more than 5% of the Pioneer's Investment Cash, at the time of purchase, may be invested in notes issued by any single issuer.

k) Shares of beneficial interest issued by diversified management companies that are mutual funds and money market mutual funds that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that:

1. Mutual Funds that invest in the securities and obligations as authorized under California Government Code, Section 53601 (a) to (k) and (m) to (q) inclusive and that meet either of the following criteria:
    a. Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
    b. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and

obligations authorized by California Government Code, Section 53601 and with assets under management in excess of $500 million.

c. No more than 10% of the total portfolio may be invested in shares of any one mutual fund.

2. Money Market Mutual Funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:
    a. Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
    b. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500 million.
    c. No more than 20% of the total portfolio may be invested in the shares of any one money market mutual fund. Only funds holding U.S. Treasury or government agency obligations can be utilized.
    d. Investments in money market and mutual funds combined may not exceed 20% of the Pioneer's Investment Cash at the time of purchase.

l) Municipal Securities of any California Local Agency including bonds, notes, warrants, or other indebtedness, provided the securities are rated in a rating category of "A" or its equivalent or better by at least one NRSRO. Pioneer may also purchase its own issued debt but may not resell its own debt before maturity without first obtaining a tax-exempt redetermination opinion from legal counsel. Purchases of Municipal Securities shall not exceed 20% of Pioneer's investment portfolio at the time of purchase. Investment in any one issuer shall not exceed 5% at the time of purchase. Maturity shall be limited to a maximum of 60 months from the date of purchase. Purchases of Municipal Securities of any local agency outside of California are not permitted.

m) Registered treasury notes or bonds of the State of California, or any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of the State of California, or any of the other 49 states, in addition to California, provided the securities are rated in a rating category of "A" or its equivalent or better by at least one NRSRO. Investment in any one issuer shall not exceed 5% at the time of purchase. Maturity shall be limited to a maximum of 60 months from the date of purchase. Purchases of Municipal Securities of any local agency outside of California are not permitted.

n) Supranationals, United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, Inter-American Development Bank, or the International

Finance Corporation, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of “AA” or its equivalent or better by Moody’s, Standard & Poor’s, or Fitch Ratings. No more than 30% of Pioneer’s Investment Cash may be invested in these securities. No more than 10% of Pioneer’s Investment Cash may be invested in any single issuer.

ii. Any investment currently held at the time the policy is adopted which does not meet the new policy guidelines can be held until maturity and shall be exempt from the current policy. At the time of the investment’s maturity or liquidation, such funds shall be reinvested only as provided in the current policy.

iii. An appropriate risk level shall be maintained by primarily purchasing securities that are of high quality, liquid, and marketable. The portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers.

I. PROHIBITED INVESTMENT VEHICLES AND PRACTICES

i. State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to, futures and options.

ii. In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.

iii. Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.

iv. Purchasing or selling securities on margin is prohibited.

v. The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.

vi. The purchase of foreign currency denominated securities is prohibited.

J. COLLATERALIZATION

i. Collateralization shall be required on two types of investments:

a) Certificates of Deposit in excess of the amount federally insured, and

b) Repurchase agreements.

ii. For Certificates of Deposit in excess of the amount federally insured, the general collateralization level shall be 110% of the amount invested. If the security used for collateral is a mortgage-backed security, the collateralization level shall be 150% of the amount invested (Government Code sec. 53652).

iii. For repurchase agreements, the collateralization level shall be at least 102% of the market value of the agreement.

iv. The collateral shall be held by an independent third party with whom the entity has a current custodial agreement, and the right of collateral substitution is granted. In order to conform with the provisions of the Federal bankruptcy code which provides for liquidation of securities held as collateral, the only securities acceptable as collateral shall be certificates of deposit, commercial paper, eligible bankers' acceptances, medium term notes or securities that are the direct obligations of, or are fully guaranteed as to principal and interest by the United States or any agency of the United States.

K. SAFEKEEPING AND CUSTODY

i. All security transactions, including collateral for repurchase agreements, entered into by Pioneer shall be conducted on a delivery versus payment basis, and shall be delivered to Pioneer or Pioneer's designated custodian upon receipt of payment by Pioneer.

ii. All securities that may be purchased, including collateral for repurchase agreements, shall be held by a third-party custodian designated by the Treasurer. These securities shall be held in Pioneer's name and control and third-party custody shall be evidenced by safekeeping receipts. The third-party custodian shall send Pioneer, on a monthly basis, a statement of what is safe-kept and this statement shall be reconciled to Pioneer's record on a monthly basis.

L. DIVERSIFICATION INVESTMENT

i. Pioneer's investment portfolio shall be diversified to avoid incurring unreasonable and avoidable risks with regard to specific investment types. Within investment types, Pioneer shall also maintain a mix of securities to avoid concentrations within individual financial institutions, geographic areas, industry types and maturity dates.

M. MAXIMUM MATURITIES

i. To the extent possible, Pioneer shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, Pioneer shall not directly invest in securities maturing more than 5 years from the date of purchase.

V. RISK MANAGEMENT AND DIVERSIFICATION

A. MITIGATING CREDIT RISK IN THE PORTFOLIO

i. Credit risk is the risk that a security or a portfolio will lose some or all its value due to a real or perceived change in the ability of the issuer to repay its debt. Pioneer will mitigate credit risk by adopting the following strategies:

a) The diversification requirements included in the "Authorized Investments" section of this policy are designed to mitigate credit risk in the portfolio.
b) No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.
c) Pioneer may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or Pioneer's risk preferences.
d) If a security owned by the Pioneer is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps will be taken:
   1. Any actions taken related to the downgrade by the investment manager will be communicated to the Pioneer Treasurer in a timely manner.
   2. If a decision is made to retain the security, the credit situation will be monitored and reported to the Pioneer Board.

B. MITIGATING MARKET RISK IN THE PORTFOLIO
   i. Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. Pioneer recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. Pioneer will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.
   ii. Pioneer further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded

options, will affect the market risk profile of the portfolio differently in different interest rate environments. Pioneer, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

a) Pioneer will maintain a minimum of three months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements.
b) The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.

C. INTERNAL CONTROL

i. Pioneer's Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. Internal control may include testing of the investment program by the Pioneer's external auditor to determine the extent of compliance with the Investment Policy.

ii. All wire transfers initiated by the Finance Department will be confirmed to the appropriate financial institution. Proper documentation obtained from confirmations and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliations are conducted to ensure proper handling of all transactions.

D. PERFORMANCE STANDARDS
   i. Pioneer's investment portfolio shall be designed with the objective of attaining a sound rate of return throughout budgetary and economic cycles, taking into account Pioneer's investment risk constraints and the cash flow characteristics of the portfolio.

E. PORTFOLIO MANAGEMENT ACTIVITY
   i. The investment program shall seek to attain returns consistent with the intent of this policy, identified risk limitations and prudent investment principals.

F. LEGISLATIVE CHANGES
   i. Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, shall be incorporated into Pioneer's Investment Policy and shall supersede any and all previous applicable language.

G. LIMITING MARKET VALUE EROSION
   i. It is the general policy of Pioneer to limit the potential effects from erosion in market values by adhering to the following guidelines:
      a) All immediate and anticipated liquidity requirements shall be addressed prior to purchasing investments.
      b) Maturity dates for investments shall coincide with significant cash flow requirements, where possible, to assist with cash requirements at maturity.
      c) All securities shall be purchased with the intent to hold all investments to maturity. However, economic or market conditions may change, making it in Pioneer's best interest to sell or trade a security prior to maturity.

VI. STATEMENT OF INVESTMENT POLICY

A. Pioneer's Investment Policy shall be adopted by Resolution of the Pioneer Board. This investment policy shall be reviewed at least annually, typically at Budget adoption, to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to the Pioneer Board for approval.