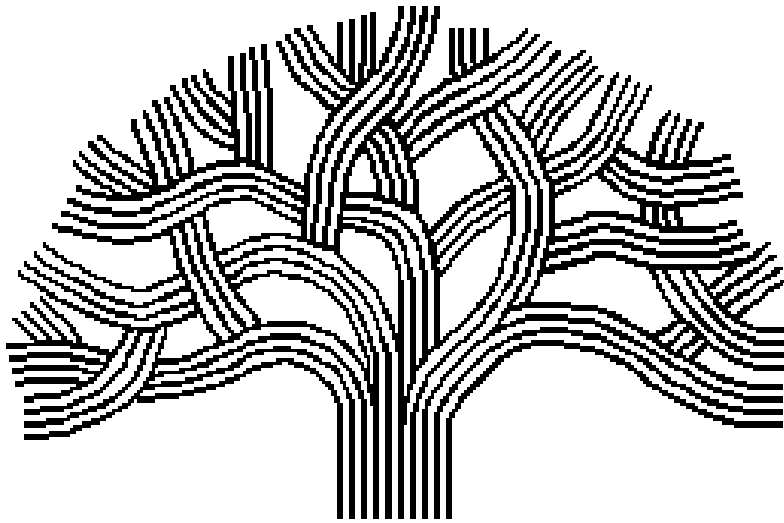


**City of Oakland  
and Oakland Redevelopment  
Agency  
Investment Policy  
For  
Fiscal Year 2004-2005**



Prepared by  
Treasury Division, Financial Services Agency  
Adopted by the City Council and Oakland Redevelopment *Agency*  
On June 15, 2004

# *Table of Contents*

<u>Topic</u>	<u>Page Number</u>
<b>1) General</b>	
Authority	1
Scope	1
Delegation	1
Prudent Investor Standard	2
Ethics and Avoidance of Conflicts of Interest	2
Internal Control	2
<b>2) Applicable Ordinances</b>	
Nuclear Free Zone Ordinance	3
Linked Banking Ordinance	3
Tobacco Divestiture Resolution	3
<b>3) The Portfolio</b>	
Definition of the Portfolio	4
Objectives	4
Custody	5
Reporting Requirements	5
Derivatives	6
General Credit Quality	6
Maturity	6
Trading Policies	7
<b>4) Permitted Investments</b>	
U. S. Treasury Securities	8
Federal Agencies and Instrumentalities	8
Banker's Acceptances	9
Commercial Paper	9
Asset -Backed Commercial Paper	10
Local Agency Pooled Investment & Deposit Commercial Paper Limits	10
Medium Term Notes	11
Negotiable Certificates of Deposit	11
Repurchase Agreements	12
Reverse Repurchase Agreements	12
Secured Obligations and Agreements	13
Certificates of Deposit	13
Money Market Mutual Funds	14
State Investment Pool (Local Agency Investment Fund)	15
Local City/Agency Bond	15
State of California Bonds	16
Other Local Agency Bonds	16

# ***I. General***

## ***Authority***

Pursuant to Council Resolution Nos. 75855 C.M.S. and 00-38 C.M.S. and in accordance with Government Codes Section 53607, the City Council delegates to the Director of Finance and Management Agency/Treasurer the authority to invest the City's and the Agency's operating fund within the guidelines of Section 53600 of the Government Code of the State of California (the "Code"). The Code also directs the City to present an annual investment policy for confirmation to the City Council. This Investment Policy is now amended and adopted as of July 2004 and will serve as the City of Oakland's Investment Policy for fiscal year 2004-05 and until further revised. By approval of this Investment Policy the City Council extends the authority and responsibility of the Director of Finance and Management Agency/Treasurer to invest or to reinvest the City's and the Agency's funds, or to sell or exchange securities so purchased, all as provided by Government Code Section 53607.

## ***Scope***

The Investment Policy applies to the operating funds of the City of Oakland and the Port of Oakland (the "City Operating Portfolio") and the Oakland Redevelopment Agency (the "Agency Operating Portfolio"). As specified in the Government Code, the proceeds of notes, bond issues or similar financings including, but not limited to reserve funds, project funds, debt service funds and capital trust funds derived from such financings, are not governed by this Investment Policy, but rather shall be invested pursuant to their respective bond or trust indentures or the State of California Government Code 53600, as applicable. Similarly, retirement/pension funds and deferred compensation funds also are not governed by this Investment Policy, but rather by the policies and federal or State statutes explicitly applicable to such funds.

## ***Delegation***

Management responsibility for the investment program is specifically delegated to the Treasury Manager who shall establish procedures for the investment program, which are consistent with this Investment Policy. Authorization for investment decisions is limited to the Treasurer, Treasury Manager, and Assistant Treasury Manager. The Financial and Treasury Analysts may make decisions only with respect to overnight investments. The Financial and Treasury Analysts also may implement investment decisions of the Treasurer, Treasury Manager or Assistant Treasury Manager, with implementation of such approved transactions to be reviewed daily by the Treasurer, Treasury Manager or Assistant Treasury Manager.

## ***Prudent Investor Standard***

All investments and evaluation of such investments shall be made with regard to the "prudent Investor" standard of care, that is, with the care, skill, prudence and diligence under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the professional management of their business affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

## ***Ethics and Avoidance of Conflicts of Interest***

All officers and employees involved in the investment process shall not engage in any personal business activity, which could conflict with proper execution of the investment program or impair their ability to make impartial investment decisions. Any material financial interests in financial institutions, which do business with the City, should be disclosed to the City Administrator. Personal investment transactions are to be subordinate to those of the City, particularly with respect to the timing of purchases and sales. All individuals involved in the investment process are required to report all gifts and income in accordance with California State law.

## ***Internal Control***

The Director of Finance and Management Agency/Treasurer, Treasury Manager, and Assistant Treasury Manager shall maintain a system of internal controls designed to ensure compliance with the Investment Policy and to prevent losses due to fraud, employee error, misrepresentations by third parties or unanticipated changes in financial markets.

The independent/external auditors shall perform an annual appraisal audit of the investment portfolio to evaluate the effectiveness of the City's investment program as well as its compliance with the Investment Policy. Additionally, the City Auditor's Office is directed to conduct periodic audits of Treasury operations to review its procedures and policies and to make recommendations for changes and improvements, if warranted.

## ***2. Applicable Ordinances***

### ***Nuclear Free Zone Ordinance***

Under the guidelines of a voter-approved Measure, the Oakland City Council approved Ordinance No. 11062 C.M.S., which restricts the City's investment in U.S. Government Treasuries. The Treasurer will make every attempt to invest in any available short-term option that provides approximately the same level of security and return as Treasuries issued by the Government. In the event that no reasonable alternatives exist, or to the extent that the City may experience financial hardship as a result of investment in these alternatives, the City Council may adopt a waiver for a period not to exceed 60 days, as authorized by the Ordinance, allowing the City to invest in U.S. Treasury securities.

### ***Linked Banking Ordinance***

Pursuant to Ordinance No. 11067 C.M.S. the City has established a Linked Banking Service Program. This reference applies to depositories for both the City of Oakland and the Port of Oakland banking needs. Depositories are defined within the Ordinance as "all banking services utilized by the City including the Port of Oakland operating fund, with the exception of investments made through investment banks and broker/dealers." Depositories providing services to the City and the Port of Oakland must provide to the City, annually, the information enumerated under Section 3 of the Ordinance.

### ***Tobacco Divestiture Resolution***

On February 17, 1998 Council adopted Resolution No. 74074 C.M.S., which prohibits investment in businesses deriving greater than fifteen percent of their revenues from tobacco products. Treasury Division maintains a list of firms excluded from permitted investments due to the tobacco divestiture requirements.

### ***Preferences***

When possible, it is the City's policy to invest in companies that promote the use and production of renewable energy resources and any other socially responsible investments, subject to the prudent investment standard.

# ***3. The Portfolio***

## ***Definition of the Portfolio***

For the purposes of this Investment Policy, the "Portfolio" or "Fund" consists of the unexpended fund balances of the City of Oakland (including certain operating funds held from time to time for the City's Retirement Systems) and the Port of Oakland, and the "Agency Portfolio" or "Agency Fund" consists of the unexpended fund balances of the Oakland Redevelopment Agency. This Investment Policy applies equally to both the City and the Agency, and all references to "Portfolio" or "Fund" are deemed to include that of each respective entity.

As specified in the Government Code, the proceeds of notes, bond issues or similar financings including, but not limited to reserve funds, project funds, debt service funds and capital trust funds derived from such financings, are not included in the Portfolio, but rather shall be invested separately pursuant to their respective bond or trust indentures or the State of California Government Code 53600, as applicable. Similarly, retirement/pension funds and deferred compensation funds are not included in the Portfolio, but rather shall be invested separately pursuant to the respective policies and federal or State statutes explicitly applicable to such funds.

## ***Objectives***

### ***Preservation of Capital (Safety)***

The first and primary goal of the Fund is the preservation of capital. Investments shall be made with the aim of avoiding losses due to market value risk, issuer default and broker default. Diversification of the Fund further ensures that potential losses on individual securities do not exceed the income generated on the remainder of the Fund.

### ***Liquidity***

Adequate cash on hand to meet cash disbursements and payroll are to be covered through maturing investments. Cash flow modeling is an integral part of the overall cash management responsibilities of the Treasury Division.

### ***Diversity***

Reducing overall portfolio risks while maintaining market average rates of return is essential. The objective is to avoid over-concentration in issuers, instruments, and maturity sectors. No more than 5 percent of the total assets of the investments held by the City may be invested in the securities of any one issuer, except the obligations of the United States government or government-sponsored enterprises, investment with the Local Agency Fund and proceeds of or pledged revenues for any tax revenue anticipation notes.

## ***Yield***

While not the primary consideration of the Fund, it is important to recognize that the objectives of the City go beyond the preservation of capital. The Fund is managed to maximize its overall return with consideration of the safety, liquidity, and diversity parameters discussed above.

## ***Custody***

All investments of the City/Agency are to be secured through third-party custody and safekeeping procedures. All securities purchased from dealers and brokers shall be held in safekeeping by the City's custodial bank, which establishes ownership, by the City of Oakland or the Agency, as applicable.

All collateralized securities, such as repurchase agreements, are to be purchased using delivery versus payment procedures.

## ***Reporting Requirements***

### ***Interim Requirements to Council***

The Director of Finance and Management Agency/Treasurer will submit a quarterly investment report for the City and the Agency within 30 days following the period being reported to the City Council. Such a quarterly report will be deemed timely pursuant to this Investment Policy and Government Code Section 53646, so long as it has been placed in the published Council agenda materials within 30 days following the period being reported. The report will include the information required under Government Code Section 53646 including: the type of investment, issuer, date of maturity, par and dollar amount invested (this data may be in the form of a subsidiary ledger of investments); a description of any investments under management of contracted parties, if any; current market values and source of valuation; statement of compliance or manner of non-compliance with the Investment Policy; and a statement denoting the ability to meet the Fund's expenditure requirements for the next six months. In addition, the report shall summarize economic conditions, liquidity, diversity, risk characteristics and other features of the portfolio. The report will disclose the total investment return for the 3-month period. In meeting these requirements, the report shall include an appendix that discloses all transactions during each month and the holdings at the end of each month during the period being reported.

### ***Reports to California Debt and Investment Advisory Commission (CDIAC)***

Pursuant to section 17581 of the Government Code, the legislature is mandated to appropriate fund for Investment report. During the fiscal year 2003-04, the legislature suspended the Investment Reports appropriation. The City is therefore not mandated to send report to the state.

## ***Annual Requirements***

The annual report shall provide an overall performance appraisal of various investment securities classes, overall economic and interest rate trends, and the overall outlook for the portfolio. As a part of the annual audit, the portfolio will be marked to market each June 30 in accordance with requirements of generally accepted accounting principals and the Government Accounting Standards Board. However, unrealized gains or losses will not be distributed.

## ***Derivatives***

Callable step-up securities and floaters (which are tied to a short-term index such as 3- or 6-month LIBOR, 3-month Treasury Bills or Fed Funds rate) are considered suitable investments.

Structured notes, capped and range floaters, floating rate notes tied to a long-term index such as the Cost of Funds Index, inverse floaters and leveraged floaters are not permitted investments of the Fund at this time.

Collateralized Mortgage Obligations or their derivatives such as interest only strips are not permitted investments at this time.

## ***General Credit Quality***

Short- term debt shall be rated at least “A-1” by Standard & Poor’s Corporation, “P-1” by Moody’s Investor Service, Inc. or “F-1” by Fitch. Long-term debt shall be rated at least “A” by Standard & Poor’s Corporation, Moody’s Investors Service, Inc., or Fitch.

The minimum credit requirement for each security is further defined within the *Permitted Investments* section of the policy. If securities which are purchased for the Fund are downgraded below the credit quality required by the Fund, the Treasurer, in consultation with the Treasury Manager, will determine whether to retain or to sell the security. Evaluation of divestiture of securities will be determined on a case-by-case basis.

## ***Maturity***

The average maturity of the investment portfolio shall not exceed 540 days. The maximum maturity for any one investment shall not exceed 5 years unless authority for such investment is expressly granted in advance by the City Council in accordance with Government Code Section 53601.

## ***Trading Policies***

### ***Sales Prior to Maturity***

"Buy and hold" is not necessarily the strategy to be used in managing the Funds. It is expected that gains will be realized when prudent. Losses are acceptable if the proposed swap/trade clearly enhances the portfolio yield over the life of the new security on a total return basis.

Sufficient written documentation will be maintained to facilitate audit of the transaction. Losses, if any, will be recognized and recorded based on the transaction date.

### ***Purchasing Entities, Broker/Dealers and Financial Institutions***

The purchase of any authorized investment shall be made either directly from the issuer or from any of the following:

- Institutions licensed by the State of California as a broker/dealer
- Members of a federally regulated securities exchange
- National or state-chartered banks
- Federal or state savings institutions or associations as defined in Finance Code Section 5102
- Brokerage firms reporting as a primary government dealer to the Federal Reserve Bank

The Treasury Manager will maintain a current and eligible list of reputable primary and regional dealers, brokers and financial institutions with whom securities trading and placement of funds are authorized. A strong capital base credit worthiness, and, where applicable, a broker/dealer staff experienced in transactions with California local governments are the primary criteria for inclusion on the City of Oakland's approved list. Approved dealers and brokers shall be limited to primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) and which provide: proof of National Association of Securities Dealers certification; proof of California State registration; and a completed City of Oakland broker/dealer questionnaire. In addition, prior to approval and annually thereafter, approved dealers and brokers must provide: an audited financial statement; certification of receipt, review of and willingness to comply with the current Investment Policy; and certification of compliance with Rule G-37 of the Municipal Securities Rulemaking Board regarding limitations on political contributions to the Mayor or any member of the City Council or to any candidate for these offices.

The Treasurer or Treasury Manager may remove a firm from the approved list at any time due to: any failure to comply with any of the above criteria; any failure to successfully execute a transaction; any change in broker/dealer staff; or any other action, event or failure to act which, in the sole discretion of the Treasurer or Treasury Manager is materially adverse to the best interests of the City/Agency.

## ***4. Permitted Investments***

The following securities are permissible investments pursuant to Section 53601 of the Government Code as well as this Investment Policy. Any other investment not specified hereunder shall be made only upon prior approval by the City Council and/or the Agency.

### ***U. S. Treasury Securities***

Bills, notes and bonds issued by the U.S. Treasury which are direct obligations of the federal government.

Maximum Maturity	5 years
Maximum Portfolio Exposure	20%*
Maximum Issuer Exposure	Prudent person standard applies overall
Credit Requirement	N.A.

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\* 20% limit is a result of the Nuclear Free Zone Ordinance, subject also to prior adoption by Council of a waiver for a period not to exceed 60 days allowing investment in U.S. Treasury securities due to specified findings. There is no limitation under the Government Code.

### ***Federal Agencies and Instrumentalities***

Notes and bonds of federal agencies, government-sponsored enterprises and international institutions. Not all are direct obligations of the U. S. Treasury but may involve federal sponsorship and/or guarantees, in some instances.

Maximum Maturity	5 years
Maximum Portfolio Exposure	None
Maximum Issuer Exposure	Prudent person standard applies overall
Credit Requirement	N.A.

### **Banker's Acceptances (BA)**

Bills of exchange or time drafts drawn on and accepted by a commercial bank, typically created from a letter of credit issued in a foreign trade transaction.

Maximum Maturity	180 days
Maximum Portfolio Exposure	40%
Maximum Issuer Exposure	30% of total surplus funds may be in BAs of one commercial bank; maximum 5% per issuer
Credit Requirement	A1, P1, or F1 (S&P/Moody's/Fitch)

### **Commercial Paper**

A short-term, unsecured promissory note issued by financial and non-financial companies to raise short-term cash. Financial companies issue commercial paper to support their consumer and/or business lending; non-financial companies issue for operating funds.

Maximum Maturity	270 days
Maximum Portfolio Exposure	25%
Maximum Issuer Exposure	10% of the outstanding paper of the issuer; maximum 5% per issuer
Credit Requirement	Prime quality of the highest letter and number rating as provided by a nationally recognized statistical rating organization (NRSRO). For example, A1 or P1 (S&P/Moody's); or F1 (Fitch).
Eligibility	Limited to general corporations organized and operating in the United States with assets in excess of \$500 million, and having "A" or higher ratings for the issuer's debt, other than commercial paper, if any, as provided by NRSRO.

**Asset-Backed Commercial Paper**

Asset-Backed Commercial Paper (“ABCP”) issued by special purpose corporations (“SPCs”) that is supported by credit enhancement facilities (e.g. over-collateralization, letters of credit, surety bonds, etc.)

Maximum Maturity	270 days
Maximum Portfolio Exposure	25% (Not to exceed 25% of total secured and unsecured CP)
Credit Requirement	Rated “A1” by Standard and Poor’s, “P1” by Moody’, or “F1” by Fitch
Eligibility	<p>Issued by special purpose corporations (“SPC”) organized and operating in the the United States with assets exceeding \$500 million. Restricted to programs sponsored by commercial banks or finance companies organized and operated in the United States.</p> <p>Program must have credit facility that provides at least 100% liquidity</p> <p>Serialized ABCP programs are not eligible</p>

**Ratings are to be routinely monitored. The Treasurer, Treasury Manager or Assistant Treasury Manager is to perform his/her own due diligence as to creditworthiness.**

**Local Agency Pooled Investment & Deposit Commercial Paper Limits**

For local agencies (including counties, cities or other local agencies) that pool money in deposits or investments with other local agencies, investments may be made subject to the following:

Maximum Maturity	N/A
Maximum Portfolio Exposure	None

or, in the case of commercial paper, subject to the following concentration limits:

No more than 40% of local agency’s total money in eligible commercial paper
No more than 10% of local agency’s total money invested in outstanding commercial paper of any single issuer
No more than 10% of outstanding commercial paper of any single issuer may be purchased

### **Medium Term Notes**

Corporate Bonds, Corporate Notes and Deposit Notes. Issuers are banks and bank holding companies, thrifts, finance companies, insurance companies and industrial corporations. These are debt obligations that are generally unsecured.

Maximum Maturity	5 years (additional limitations based on credit, below)
Maximum Portfolio Exposure	30%
Maximum Issuer Exposure	Prudent person standard applies overall; maximum 5% per issuer
Credit Requirement	Top 3 rating categories, A, A2 or A (S&P/Moody's/Fitch) being the lowest. Maturity no greater than 24 months ("A" category) or 36 months ("AA" category)
Eligibility	Limited to corporations organized and operating within the United States or depository institutions licensed by the United States or any state and operating within the United States

### **Negotiable Certificates of Deposit**

Issued by commercial banks and thrifts, and foreign banks (Yankee CD's).

Maximum Maturity	5 years
Maximum Portfolio Exposure	30%
Maximum Issuer Exposure	Prudent person standard applies overall; maximum 5% per issuer
Credit Requirement	Top 3 rating categories, A, A2 or A (S&P/Moody's/Fitch) being the lowest, if rated by S&P, Moody's or Fitch, otherwise, for Domestic Banks and Savings & Loans a minimum of C (Thomson Bank Watch) and for Foreign Banks a minimum of B (Thomson Bank Watch), or in either case equivalent ratings from another generally recognized authority on bank ratings

### **Repurchase Agreements**

A contractual transaction between the investor and a bank/dealer to exchange cash for temporary ownership or control of securities/collateral with an agreement by the bank/dealer to repurchase the securities on a future date. Primarily used as an overnight investment vehicle.

Maximum Maturity	360 days
Maximum Portfolio Exposure	None
Maximum Dealer Exposure	Prudent person standard applies overall; maximum 5% per issuer
Collateral Requirements	Collateral limited to Treasury and Agency securities; must be 102% or greater
Mark-to-market	Daily
Eligibility	Limited to primary dealers of the Federal Reserve Bank of New York, for which a current Master Repurchase Agreement has been executed with the City/Agency

### **Reverse Repurchase Agreements**

The mirror image of a repurchase agreement. Used as a source of liquidity when there is a mismatch of cash flow requirement and scheduled maturities. A mechanism to avoid liquidating securities for immediate cash needs. Restricted to securities owned for a minimum of 30 days prior to settlement of the repurchase agreement.

This strategy should be used solely for liquidity and not for arbitrage or leverage purposes.

Maximum Maturity	92 days (unless a written agreement guaranteeing the earnings or spread for the entire period)
Maximum Portfolio Exposure	20% of the base value of the portfolio
Mark-to-Market	Daily
Eligibility	Limited to primary dealers of the Federal Reserve Bank of New York or nationally or State chartered bank with significant banking relationship with the City

### **Secured Obligations and Agreements**

Obligations, including notes or bonds, collateralized at all times in accordance with Sections 53651 and 53652 of the Government Code.

Maximum Maturity	2 years
Maximum Portfolio Exposure	20%
Maximum Issued/Provider Exposure	Prudent person standard applies overall; maximum 5% per issue
Collateral Requirements	Collateral limited to Treasury and Agency securities; must be 102% or greater
Mark-to-market	Daily
Credit Requirement	Issuer/Provider rated in "AA" category by at least one national rating agency; or agreement guaranteed by an "AA" company
Eligibility	Banks, insurance companies, insurance holding companies and other financial institutions

**Certificates of Deposit**

Time deposits, which are non-negotiable, are issued most commonly by commercial banks, savings and loans and credit unions with federal deposit insurance available for amounts up to \$100,000. Deposits in banks, savings and loan associations and federal credit unions with a branch office within Oakland will be made (to the extent permissible by State and federal law or rulings) pursuant to the following conditions:

Maximum Maturity	360 days
Maximum Portfolio Exposure	Prudent person standard applies
Maximum Issuer Exposure	Prudent person standard applies
Collateral	Waive first \$100,000 pursuant to Gov. Code 53653 (due to federal insurance); otherwise as provided in Gov. Code 53652
Credit Requirement	For deposits over \$100,000: Top 3 rating categories - A, A2 or A (S&P/Moody's/ Fitch) being the lowest, if rated by S&P, Moody's or Fitch; otherwise, for Domestic ----- (continued on next page) ----- Banks and Savings & Loans, a minimum standard of C (Thompson Bank Watch) and for Foreign Banks a minimum of B

	(Thompson Bank Watch), or in either case equivalent ratings from another generally recognized authority on bank ratings
Deposit Limit	For federally insured deposits of \$100,000 or less: No minimum credit rating required. City's deposits cannot exceed the total shareholder's equity of the institution
Depository Selection	Highest available rate of interest
Institution Requirements	Most recent Annual Report

Note: Pursuant to Government code 53637, the City is prohibited from investing in negotiable certificates of deposit of a state or federal credit union if a member of the legislative body or decision-making authority serves on the board of directors or committee.

### **Money Market Mutual Funds**

Regulated by the SEC, these funds operate under strict maturity and diversification guidelines. These funds have no federal guarantee but are viewed as a very safe short-term cash investment.

Maximum Maturity	N/A
Maximum Portfolio Exposure	20%
NAV Requirement	\$1.00
Credit Requirement	Top ranking or highest letter and numerical rating provided by at least two nationally recognized statistical rating organizations
Investment Advisor Alternative to Ratings	Registered with the SEC with not less than 5 years experience in investing securities as authorized by the Code, and with assets under management in excess of \$500 million
Fund Composition	Comprised of instruments in accordance with the California State Government Code

### **State Investment Pool (Local Agency Investment Fund)**

A pooled investment fund overseen by the State Treasurer, which operates like a money market fund, but is for the exclusive benefit of governmental entities within the state. Maximum

currently authorized by Local Agency Investment Fund (LAIF) is \$40 million, which is subject to change. The LAIF is in trust in the custody of the State Treasurer. The City's right to withdraw its deposited monies from LAIF is not contingent upon the State's failure to adopt a State Budget by July 1<sup>st</sup> of each new fiscal year.

Maximum Maturity	N/A
Maximum Portfolio Exposure	None

**Local City/Agency Bonds**

Bonds issued by the City of Oakland, the Redevelopment Agency or any department, board, agency or authority of the City or the Redevelopment Agency.

Maximum Maturity	5 years
Maximum Portfolio Exposure	None
Maximum Issuer Exposure	Prudent person standard applies overall; maximum 5% per issuer
Credit Requirement	Prudent person standard applies

**State of California Bonds**

State of California registered state warrants, treasury notes, or bonds issued by the State or by a department, board, agency or authority of the State.

Maximum Maturity	360 days
Maximum Portfolio Exposure	None
Credit Requirement	Prudent person standard applies
Maximum Issuer Exposure	Prudent person standard applies overall; maximum 5% per issuer

**Other Local Agency Bonds**

Bonds, notes, warrants or other evidences of indebtedness of any local agency within the state.

Maximum Maturity	5 years
Maximum Portfolio Exposure	Prudent person standard applied overall; maximum 5% per issuer
Maximum Issuer Exposure	Prudent person standard applies
Credit Requirement	Prudent person standard applies