California State Lottery
Investment Policy

I. Statutory Authority

Pursuant to Government Code Section 8880.25.5, the Lottery Commission may invest funds on deposit in the State Lottery Fund within or outside the State Treasury system and purchase and sell securities, including entering into bond purchase agreements with the state to purchase state general fund obligations, or invest in other evidence of indebtedness issued by the state, including but not limited to, notes or warrants.

II. Scope

The scope of this investment policy applies to funds held in the State Lottery Fund, including funds invested to provide ~~for~~ future payments to annuity prize winners and funds invested in a reserve fund for future payments to annuity prize winners.

III. Investment Objective

The California State Lottery (Lottery) shall invest funds from the State Lottery Fund utilizing prudent investor standards.

The ~~principal~~ primary objectives of the Lottery's investment program are safety of principal and timeliness of payments to Lottery prize winners. Investments shall be undertaken in a prudent manner that seeks to ensure the preservation of capital within the overall portfolio, while mitigating credit, reinvestment, and interest rate risk. The Lottery's investment portfolio shall be structured so that investments mature ~~in~~ into amounts sufficient to meet required prize payouts on dates immediately prior, or as near prior as practicable, to prize payment dates.

This Investment Policy is also driven by the goal to utilize the resources from the Lottery's investment portfolio to the maximum benefit of public education. The Lottery shall seek opportunities to enhance the financial return of the Lottery's investment portfolio that are consistent with the principal objectives of the Lottery's investment program.

IV. Permitted Investments

Pursuant to the approval of the Lottery Commission, permitted investment securities (Permitted Investments) shall include fixed rate debt obligations in the following categories:

1. U.S. Treasury Obligations (direct or fully guaranteed obligations).

2. U.S. Government Agency or Government-Sponsored Enterprise Securities including, but not limited to, securities issued by the Government National Mortgage Association (GNMA or Ginnie Mae), Small Business Administration (SBA), Federal Housing Administration (FHA), Tennessee Valley Authority (TVA), Export-Import Bank of the U.S., Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), Federal Farm Credit Banks Funding Corporation, Federal Home Loan Banks, and Federal Agricultural Mortgage Corporation.

3. State and Local Government Municipal Securities (Municipal Securities) in the following categories:

    a. State General Obligation bonds backed by full faith and credit (unlimited tax-backed bonds) with investment-grade ratings.

    b. State issued bonds backed by faith and credit (limited tax-backed bonds) with ratings at the time of purchase of double A (without respect to modifiers) or higher by Fitch, Moody's or Standard and Poor's.

    c. General Obligation bonds of a county or local governmental entity with ratings at the time of purchase of double A (without respect to modifiers) or higher by Fitch, Moody's or Standard and Poor's.

    d. Revenue bonds of a state, county, city or other political subdivision or authority with ratings at the time of purchase of double A (without respect to modifiers) or higher by Fitch, Moody's or Standard & Poor's.

V. Credit and Reinvestment Criteria

To fulfill the investment objectives as described in Section III. Investment Objectives, and except as provided in Section VIII. Portfolio Restructuring of this Policy, the Lottery shall maintain a "Buy and Hold" investment strategy in which the purchased securities are held until maturity, at which time the funds are used to pay annuity prizes. In the event an investment security held by the Lottery is subject to a rating change that brings it below the minimum credit ratings at the time of purchase as specified under Section IV. Permitted Investments, the Deputy

Director of Finance or the Chief of Financial Reporting & Systems Management shall determine the course of action to be followed on a case-by-case basis, considering such factors as the reason for the ratings change, prognosis for recovery or further rating downgrades and the market price of the investment security. Any such occurrence shall be reported to the Commission in writing within 15 days.

In the event an investment security held by the Lottery is unexpectedly called prior to maturity, the Lottery shall reinvest the proceeds in a security specified under Section IV. Permitted Investments in an amount sufficient to meet required prize payouts on dates immediately prior, or as near prior as practicable, to prize payment dates.

VI. Credit and Reinvestment Risk Management

The Lottery shall evaluate and monitor its investment portfolio for credit risk and reinvestment risk associated with a credit rating downgrade or exercised call and shall ensure that levels of credit and reinvestment risk inherent to the types of securities in the investment portfolio are within the Lottery's risk tolerance.

The Lottery's Permitted Investments include U.S. Treasury Obligations backed by the full faith and credit of the United States and U.S. Agency Securities (Agency Securities) possessing an implicit guarantee by the United States. U.S. Treasury Obligations and Agency Securities are generally viewed to possess minimal or no Credit Risk. The Lottery's Permitted Investments also include Municipal Securities with inherent credit and reinvestment risk. The Lottery shall employ strategies to mitigate such risk, including but not limited to holding bonds until maturity; reinvesting using available funds in the Lottery's administrative budget; and purchasing bonds to hold in reserve to serve as an additional financial resource to mitigate credit and reinvestment risk.

VII. Diversification of Investments in Municipal Securities

For purposes of diversification, the Lottery's investments in Municipal Securities shall be subject to the following investment allocation limits based on fair market value:

1. Securities of a single local municipality or issuer (e.g. a county, city or authority) shall not exceed 5~~%~~ percent of the total portfolio at the time of purchase. Investment allocation limits shall not apply to securities issued by the State of California.

2. Securities of issuers located in a single state shall not exceed 10~~%~~ percent of the total portfolio at the time of purchase. Investment allocation limits shall not apply to securities issued by the State of California.

Should the fair market value of an investment in a Municipal Security exceed the applicable investment allocation limits specified above at any time after purchase, the Deputy Director of Finance or the Chief of Financial Reporting & Systems Management shall determine the course of action to be followed on a case-by-case basis. Any such occurrence shall be reported to the Commission in writing within 15 days.

VIII. Portfolio Restructuring

Pursuant to Lottery Policy and within the scope of the California Lottery Act, the Lottery may restructure the Lottery's investment portfolio in order to increase investment returns to make additional funding available for public education and generate funds in excess of the portfolio requirements to pay prizes. ~~At~~ In such ~~time~~ instances, the Lottery shall competitively procure a professional financial consultant to guide the ~~restructure~~ restructuring effort and shall notify the Commission of the intent to award, even if the dollar amount does not meet the threshold for Commission approval.

Investments resulting from the restructuring shall be competitively bid, but in no case shall the sum of the return on investments be less than annual prize obligation due to annuity prize winners.

Except for opportunities that will utilize the resources from the Lottery's investment portfolio to the maximum benefit of public education, the Lottery shall hold all securities obligated to prize liabilities to maturity.

IX. Delegation of Authority and Responsibilities

The Lottery Commission has authorized the Lottery Director to carry out all activities necessary to comply with this Investment Policy.

Delegation of Authority:

Pursuant to the delegation authority of the Lottery Director, the Deputy Director of Finance and the Chief of Financial Reporting & Systems Management are authorized to, upon notification to the Commission, approve portfolio restructuring transactions proposed by the Lottery's financial consultant (Financial Consultant) and to approve the appropriate transaction materials including bid/offer/security swap forms.

Responsibilities:

Commission: Provides guidance and direction regarding the utilization of net proceeds resulting from the management of the Lottery's investment portfolio. Such guidance shall be in accordance with the purpose and intent of the California State Lottery Act.

Director: Maintains fiduciary responsibility over the Lottery's investment portfolio, transactions and proceeds. The Director shall supervise and administer all policies related to the funding of annuity prize payments and the restructuring of the Lottery's investment portfolio ~~per~~ with Commission guidance and direction.

Deputy Director of Finance: Manages the Lottery's investment program. The Deputy Director of Finance develops the annual budget and executes investment strategies to generate the anticipated net proceeds. This includes authorizing the sale and purchase of securities that meet Commission-approved investment parameters. The Deputy Director of Finance reviews the investment policy on an annual basis to ensure all amendments are incorporated and ensures the current policy upholds the Lottery's mission to supplement funding for education.

Chief of Financial Reporting & Systems Management: Oversees policy execution and ensures all relevant investment reports associated with investment activity are reviewed for accuracy and sufficiency and transmitted timely to interested and impacted parties (e.g., State Treasurer's Office). The Chief of Financial Reporting & Systems Management ensures all related accounting transactions are recorded in accordance with Generally Accepted Accounting Principles and are consistent with Article 7 of the Lottery Act pertaining to the State Lottery Fund. The Chief of Financial Reporting & Systems Management prepares annual financial statements that disclose the Lottery's investment activity and reflects the amount of proceeds generated from restructuring, if applicable. This officer also ensures the timely transfer of net proceeds to the California State Lottery Education Fund, as prescribed in Government Code Section 8880.65 of the Lottery Act.

Investment Officer: Maintains responsibility for the daily operations of the investment program and ensures all related activities are performed in accordance with established policies and internal controls for the program. The Investment Officer oversees policy execution, reviews and manages the Lottery's investment portfolio, evaluates market conditions and provides management with an analysis of the current portfolio and the individual trades previously executed.

Financial Consultant: Provides services including but not limited to advising, planning, and acting as a securities agent to purchase and sell securities on behalf of the Lottery, and in coordination with the California State Treasurer's Office (STO), should the Lottery restructure its investment portfolio. All transactions involved in the restructuring process, including sales of existing securities and purchases of new or replacement securities, must be pre-approved by the Deputy Director of Finance. The Financial Consultant shall advise the Deputy Director of Finance, the Chief of Financial Reporting & Systems Management, and the Investment Officer of the expected savings from each proposed transaction, as well as provide an independent assessment of risk. Pursuant to the contract, the Financial Consultant shall provide the Lottery with quarterly financial updates including an updated portfolio cash flow model that reflects the quarter's transactions and analysis of the collective portfolio. A Financial Consultant shall be hired through a competitive bid process. Any contracted Financial Consultant

must act in accordance with the Investment Protection Standards for financial conduct as maintained by the STO.

All participants in the investment process shall seek to act responsibly as custodians of public funds. The Investment Officer will avoid any transaction that might impair public confidence in the Lottery. The investment program shall be designed and managed with a degree of professionalism which is worthy of that public trust.

X. Reporting

An Investment Portfolio Report including, but not limited to, information related to the management of investment risk and the disclosure of investment portfolio restructuring activity, if any, shall be submitted to the Commission not less than annually.

Additionally, in the event the Lottery performs investment portfolio restructuring activity, the Lottery shall prepare or cause to be prepared a report affirming the sufficiency of the portfolio cash flow to meet prize payment obligations in connection with each investment portfolio restructuring transaction.

XI. Adoption of Investment Policy and Periodic Review

Investment Policy Adoption:

The Director of the Lottery or designee (including the Deputy Director of Finance, the Chief of Financial Reporting & Systems Management, and the Investment Officer) may propose policy changes to the Commission at any time. The Commission shall review and adopt, by vote, its Investment Policy and investment strategies not less than annually. All changes to the Investment Policy must be approved by the Commission.

Periodic Review:

This Investment Policy shall be reviewed annually and confirmed or amended by the Commission.

REAFFIRMED AND ADOPTED ON THE ~~25th~~ 19th DAY OF ~~SEPTEMBER~~ NOVEMBER ~~2025~~ 2026.