City of Rosemead

Statement of Investment Policy

Fiscal Year 2021-22

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2021-22 INVESTMENT POLICY

I. INVESTMENT PHILOSOPHY

A. Introduction

The Annual Statement of Investment Policy is intended to provide specific criteria and clear understanding of guidelines for the prudent investment of City funds. The ultimate investment goal is to enhance the economic status of the City while protecting funds under management and meeting the daly cash flow needs of the City. This investment policy has been prepared in conformance with all pertinent existing laws of the State of California including California Government Code Sections 53600, et seq.

Government Code Section 53646 previously mandated that annual investment policies and quarterly reports be rendered to the legislative body. AB2853 amended the Government Code Section 53646 to remove the requirements; the rendering of these documents is permissive rather than mandated. Although the Annual Investment Policy and Quarterly Reports are no longer required, the City believes it prudent to continue to provide the legislative body with these documents. Consequently, the Finance Director/Treasurer will continue to render to the City Council quarterly investment reports and the annual statement of investment policy.

B. Objectives

The primary objectives of investment activity, in order of priority, are shown below, and shall be in conformity with California Government Code section 53600.5:

1. *Safety* – Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. *Liquidity* – The investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements as prescribed by state law and which might be reasonably anticipated. An adequate portion of the portfolio should be maintained in liquid short-term securities that can be converted to cash if necessary to meet disbursement requirements. Since unanticipated cash requirements do, indeed, arise, most investments will be in securities with active secondary or resale markets. Emphasis shall be on marketable securities with low sensitivity to market risk.
3. *Yield* – Yield should become a consideration only after the more basic requirements of safety and liquidity have been met. The investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles commensurate with the City's investment risk restraints and the cash flow characteristics of the portfolio.

C. Prudence

1. The Prudent Investor Standard shall be used by investment officials, and shall be applied in the context of managing an overall portfolio. Investment staff acting in

accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes.

2. The City adheres to the guidance provided by the "prudent investor" standard, as codified in Government Code section 53600.3. This obligates a fiduciary to insure that: "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent investor 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 the agency. Within the limitations of this section and considering individual investments as part to an overall strategy, investments may be acquired as authorized by law."

II. OPERATIONAL AND PROCEDURAL MATTERS

A. Scope

This investment policy applies to all financial assets and investment activities of the City except for proceeds of debt issuance, defined contribution plans (deferred compensation), defined benefit plans (pension), and the Other Post Employment Benefit (OPEB) trust. The exempt assets are invested in accordance with regulations established by the State of California and any agreements specific to the funds. Where present, bond indenture and guiding resolution documentation for investment of bond proceeds will superscede the City of Rosemead Investment Policy guidelines.

All monies, with the exception of Sucessor Agency and Rosement Housing Development Corporation, shall be pooled for investment purposes to provide investment efficiencies and cash flow. The investment income derived from the pooled investment account shall be allocated based upon the proportion of the respective average balances relative to the total pooled balance in the portfolio. Investment income shall be distributed to the individual funds not less than quarterly.

B. Delegation and Authority

1. Pursuant to California Government Code Section 53607 which requires the annual delegation of investment authority to the City Treasurer, the City Council hereby delegates management responsibility of the City's investment program to the Finance Director/Treasurer for one year or until such time the delegation is revoked. The Finance Director/Treasurer may delegate daily investment activity, such as carrying out the Treasurer's investment instructions, confirming transactions, and other routine activities.

2. The Finance Director/Treasurer shall establish written procedures for the operation and management of the City's investment program consistent with this investment policy including explicit delegation of authority to person responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and procedures established by

the Finance Director/Treasurer.

3. In the absence of the Director of Finance, the Finance Manager, in conjunction with the City Manager, has investment responsibility.

4. The City Council may, upon recommendation of the Investment Committee, engage the services of one or more external investment managers to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such external managers may be granted limited discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940, or be exempt from such registration. Such external managers shall be prohibited from 1) selecting broker/dealers, 2) executing safekeeping arrangements, and 3) executing wire transfers. This Section does not preclude the City Treasurer from retaining portfolio consultants within existing authority.

C. Internal Controls

The Finance Director/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. Internal controls shall be in writing and shall address the following points: control of collusion, separation of transaction authority from accounting and record keeping, safekeeping of assets and written confirmation of telephone transactions for investments and wire transfers.

D. Conflict of Interest

State law, City statutes and City personnel and purchasing policies shall be followed to avoid conflict of interest or the appearance thereof. In addition to the applicable requirements of the Political Reform Act and the Government Code Section 1090, the Finance Director/Treasurer and City Manager, members of the City Council, members of the Investment Committee, their spouses and investment consultants shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions on behalf of the City. In addition, these individuals shall disclose to the City Manager any financial interests in or financial relationships with financial institutions that conduct business with the City, and shall subordinate their personal investment transactions to those of the City's, particularly with regard to the timing of purchases and sales. All bond issue providers including but not limited to underwriters, bond counsel, financial advisors, brokers and dealers, will disclose any fee sharing arrangements or fee splitting to the City Manager prior to the execution of any transactions. The providers must disclose the percentage share and approximate dollar amount share to the City prior to the execution of any transactions.

E. Authorized Financial Dealers and Institutions

1. The Treasurer, at his or her discretion, maintains a list of financial institutions authorized to provide investment services to the City. Institutions eligible to transact investment business with the City include:

   a. Primary or Regional dealers that qualify by the SEC Rule 15c3-1

b. Nationally or state-charted banks,

c. The Federal Reserve Bank, and

d. Direct issuers of securities eligible for purchase by the City.

2. Selection of financial institutions and broker/dealers authorized to engage in transactions with the City shall be at the sole discretion of the City.

3. The Treasurer and Investment Committee shall obtain information from qualified financial institutions to determine if the institution makes markets in securities appropriate for the City's needs, can assign qualified sales representatives and can provide written agreements to abide by the conditions set forth in the City of Rosemead Investment Policy. Investment accounts with all financial institutions shall be standard non-discretionary accounts and may not be margin accounts.

4. All financial institutions which desire to become qualified bidders for investment transactions must supply the Treasurer with the following:

   a. Audited financial statements for the institution's three most recent fiscal years.

   b. At least three references from California local agencies whose portfolio size, investment objectives and risk preferences are similar to the City's.

   c. A statement certifying that the institution has reviewed the California Government Code Section 53600 *et seq.* and the City's Investment Policy and that all securities offered to the City shall comply fully and in every instance with all provisions of the California Government Code.

5. The signatures of two individuals shall be required for the opening and closing of any bank account and broker account (the Finance Director/Treasurer or City Manager, and the Mayor or Mayor Pro Tem). The Finance Manager, who is independent of the investment function, shall keep a record of all opened and closed accounts. On an annual basis, the Finance Manager shall provide this list of accounts to the City's independent auditor.

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

7. The Finance Director/Treasurer when leading investment activities will buy or sell at the price that is most advantageous to the City and meets investment requirements.

F. <u>Delivery Procedures</u>

All trades of marketable securities shall be cleared and settled on a standard delivery-versus-payment ("DVP") basis to ensure that securities are deposited in the City's safekeeping account prior to the release of funds..

G. <u>Safekeeping of Securities</u>

To protect against potential losses by collapse of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all securities owned by the City shall be held in safekeeping by a third party bank trust department, acting as agent for the City under the terms of a custody agreement executed by the bank and by the City.

Securities may also be held by the same firm from which they were purchased as long as the securities for safekeeping are in the name of or under the control of the local agency and kept in a legally separate trust department as provided within California Government Code §53601 and §53608.

From time to time, the City may invest funds received late in the day in one to thirty day repurchase agreements with its depository bank. Securities used as collateral for such repurchase agreements may be held in safekeeping by the City's depository bank.

Investments are to be held in the City's name in conjunction with industry standards, including collateral held for repurchase agreements by depository banks.

III. PERMITTED INVESTMENTS AND PORTFOLIO RISK MANAGEMENT

A. Permitted Investments – All investments shall be made in accordance with Sections 16429.1 and 53600 *et seq.* of the California Government Code and as described within this Investment Policy. Percentage holding limits listed in this Policy apply at the time the security is purchased. Permitted investments under this policy include:

Category (See individual categories for more details)		Rosemead Max % of Funds Permitted	CGC Max % of Funds Permitted	Maximum Maturity	CA Gov't Code (CGC) Sections
1	Local Agency Investment Fund	Not limited	Not limited	N/A	16429.1
2	US Treasury Obligations	Not limited	Not limited	5 Years	53601(b)
3	US Agency Obligations	70%	Not limited	5 Years	53601(f)
4	Bankers' Acceptances	20%	40%/30%	180 days	53601(g)
5	Commercial Paper – Non Pooled	25%/10%	25%/10%	270 days	53601(h)(2)(c)
6	Certificates of Deposit – Negotiable	30%	30%	5 Years	53601(i)
7	Certificates of Deposit – Non Negotiable	20%	Not limited	5 Years	53630 et seq
8	Repurchase Agreements	30%	Not limited	30 days	53601(j)
9	Medium Term Corporate Notes	30%/10%	30%/10%	5 Years or less	53601(k)
10	Money Market Funds	20%/10%	20%/10%	N/A	53601(l)
11	Other State's Obligations	Not limited	Not limited	5 Years or less	53601(d)
12	California Local Agency Obligations	Not limited	Not limited	5 Years or less	53601(e)
13	Supranational Obligations	30%	30%	5 Years or less	53601(q)
NOTE: All maximum limits show as split indicates the maximum of portfolio and maximum allowed in any one entity within the category					

1. **STATE OF CALIFORNIA LOCAL AGENCY INVESTMENT FUND (LAIF)** – The City may invest in the Local Agency Investment Fund (LAIF), established by the State Treasurer under California Government Code Section 16429.1 for the benefit of local agencies, up to the maximum amount permitted by LAIF. LAIF provides daily liquidity; therefore, there is no final stated maturity for this investment category. The maximum deposit in LAIF, as of January 1, 2020, is $75 million per account.

2. **U.S. TREASURY OBLIGATIONS** – Securities issued by the U.S. Treasury including treasury bills, notes, or bonds with a final maturity not exceeding five years from the date of trade settlement. There is no limitation as to the percentage of the City's portfolio that may be invested in this category but must be five years or less in remaining maturity.

3. **U.S. AGENCY OBLIGATIONS** – Securities issued by the U.S. Treasury, provided that there shall be no maximum allowable investment in U.S. Treasury securities U.S. Federal Agency or United States government-sponsored enterprise obligations, participations or other instruments issued by the Government National Mortgage Association (GNMA), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Association (FHLMC), the Federal Farm Credit System (FFCB), the Federal Agricultural Mortgage Company/Farmer Mac (FAMCA), Tennessee Valley Authority (TVA), and Private Export Funding Corporation (PEFCO) with no maximum limit as to the percentage of the City's portfolio that may be invested in this category provided that:

   a. A maximum of 70% of the portfolio be invested in agency securities, and

   b. A maximum of 45% of the portfolio be invested in securities issued by any single agency.

   c. Investment in mortgage-backed bonds and collateralized mortgage obligations (CMOs) is prohibited, even if such bonds are issued by agencies of the US Government.

4. **BANKERS' ACCEPTANCES** provided that:

   a. They are issued by domestic institutions the short-term obligations of which are rated a minimum of P1 by Moody's Investor Services (Moody's) or A1 by Standard & Poor (S&P).

   b. The acceptance is eligible for purchase by the Federal Reserve System.

   c. The maturity does not exceed 180 days.

   d. No more than 20% of the total portfolio may be invested in banker's acceptances.

5. **COMMERCIAL PAPER** provided that:

   a. The maturity does not exceed 270 days from the date of purchase.

   b. The issuer is a corporation organized and operating in the United States with assets in excess of $500 million.

   c. The paper is rated a minimum of P1 by Moody's and A1 by S&P, and has a minimum long-term credit rating of A by both rating agencies.

   d. No more than 25% of the portfolio is invested in commercial paper, nor more than 10% from any one issurer.

6. **CERTIFICATES OF DEPOSITS – NEGOTIABLE** – Negotiable Certificates of Deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), or a state or federal credit union in excess of insured amounts which are fully collateralized with securities in accordance with California law, or that are federally insured provided that:

   a. No more than 30% of the portfolio shall be invested in a combination of federally insured and collateralized time deposits

   b. The maturity of such deposits does not exceed five years.

7. **CERTIFICATES OF DEPOSITS – NON-NEGOTIABLE –** Federally insured time deposits as well as collateralized time deposits in excess of insured amount which are fully collateralized with securities in accordance with California law, in state or federally chartered banks, savings and loans, or credit unions provided that:

   a. No more than 20% of the portfolio shall be invested in a combination of federally insured and collateralized time deposits

   b. The maturity of such deposits does not exceed five years.

8. **REPURCHASE AGREEMENTS,** provided that:

   a. The agreement is with the City's depository bank.

   b. The maturity of such deposits does not exceed 30 days.

   c. Investments are to be held in the City's name in conjunction with industry standards, including collateral held for repurchase agreements by depository banks.

9. **MEDIUM-TERM CORPORATE NOTES,** provided that:

   a. Must be rated "A" or better by a nationally recognized rating service.

   b. Investment in these securities shall not exceed 30% of the portfolio nor more than 10% from any single issuer.

   c. The maximum stated final maturity of these securities shall be five years.

10. **MONEY MARKET FUNDS,** provided that:

    a. The funds are registered under the Investment Company Act of 1940 that (1) are "no-load" (meaning no commissionor fee shall be charged on purchases or sales of shares); (2) are Government Money Market Funds; and (3) have a rating of at least AAA or the equivalent by one nationally recognized statistical rating organization (NRSRO).

    b. No more than 20% of the City's portfolio is invested in this category with no more than 10% in any single fund.

11. **OTHER STATE'S OBLIGATIONS** – CA and Others with a maximum maturity remaining of five years or less that are rated A+ or above.

12. **STATE OF CALIFORNIA LOCAL AGENCY OBLIGATIONS** with a maximum maturity remaining of five years or less.

13. **SUPRANATIONAL OBLIGATIONS** with a "AA" rating with a maximum remaining maturity of five years or less. Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB). Must not exceed 30% of the portfolio.

B. Prohibited Investment Vehicles and Practices

1. Investments not described above as authorized investments are ineligible for purchase. The policy specifically prohibis the investment of funds in common stock, financial futures, options, inverse floaters, range notes, or mortgage-derived, interesl-only strips.

2. Government Code Section 53601.6 also prohibits the investment in any security that could result in zero-interest accrual if held to maturity. Per the California Debt and Investment Advisory Commission, zero interest accrual is defined as a security having the potential to realize zero interest based on the structure of the security. Despite the this restriction, purchases of securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity are permitted in the event of, and for the duration of, a period of negative market interest rates. Investments may be held until maturity. This exception shall remain in effect until January 1, 2026 at which time it is repealed.

3. Other prohibited investment activities include –

- Trading securities for the sole purpose of speculating on the future direction of interest rates.
- Purchasing or selling securities on margin.
- The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage.
- Borrowing for investment purposes.

C. Mitigating Credit Risk in the Portfolio

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

1. The diversification requirements included in Section III (A) are designed to mitigate credit risk in the portfolio.

2. No more than 5% of the total portfolio may be invested in securities of any single issuer except that limits on investment securities issued by government agencies shall be governed by Section III A 2 b. Limits are to be based on the "market value" of the investment.

3. The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or the City's risk preferences.

4. If securities owned by the City are downgraded by either Moody's or S&P to a level below the quality required by this Investment Policy, it shall be the City's policy to review the credit situation and have the City Treasurer make a determination as to whether to sell or retain such securities in the portfolio.

   a. If a security is downgraded two grades below the level required by the City, the security shall be sold as soon as possible.

   b. If a security is downgraded one grade below the level required by this policy, the Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the loss in value, the economic outlook for the issuer, and other relevant factors.

   c. If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported quarterly to the City Manager and City Council.

D. <u>Mitigating Market Risk in the Portfolio</u>

Market risk is the risk that the portfolio will decline in value (or will not optimize its value) due to changes in the general level of interest rates or the economic environment. The City recognizes that, over time, longer-term portfolios achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The City shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making some longer-term investments only with funds which are not needed for cash flow purposes. The City further recognizes that certain types of securities, including variable rate securities, securities with principal pay downs prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The City, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

1. The maximum stated final maturity of individual securities in the portfolio shall be five years.

2. The City's Finance Director shall determine the City's Cash Flow needs and only allow investment's with cash over and above the quarterly projected capital and operating expenditures (excluding expenditures financed with bond proceeds) in investments maturing more than thirty days.

3. To the extent necessary, investment maturities shall match the City's projected cash flow requirements over the following twelve months.

4. Except for calls, the City shall invest only in securities which do not include embedded options (i.e. puts, swaps, etc.).

5. The City shall not invest in securities which may return all or part of their principal prior to their stated final maturity date more than four times in any 12 consecutive month period.

6. The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to change the portfolios exposure to market risk.

7. In order to minimize the need to sell securities prior to their stated maturity, and to eliminate reliance on interest rate forecasting, the City shall structure its investment portfolio as a maturity ladder. Funds not required for purposes of meeting cash flow needs (see Section III E 2-3) shall be invested in permitted securities with the objective of maintaining the average duration of the portfolio in line with the duration of the Benchmark Index.

IV. SPECIFIC OBJECTIVES AND EXPECTATIONS

A. Overall objective – The investment portfolio shall be designed with the overall objective of obtaining a total rate of return throughout economic cycles, commensurate with investment risk constraints and cash flow needs.

B. Specific objective – At least quarterly, the portfolio yield will be compared to the twelve-month moving average of the two-year Constant Maturity Treasury Index (CMT) or other index with characteristics similar to those of the portfolio in terms of types of securities and maturities. Since return on investment is the least important objective of the Portfolio, the benchmark will be used solely as a reference tool. The reporting of a benchmark does not imply that the City Treasurer will add additional risk to the Portfolio in order to attain or exceed the benchmark.

V. REPORTING, DISCLOSURE AND PROGRAM EVALUATION

A. Quarterly Reports

Under provision of Section 53646(b) of the California Government Code (CGC), the City Treasurer may render a quarterly investment report to the chief executive officer, the internal auditor, and the legislative body of the local agency. Although not required by Government Code, the City Treasurer shall prepare a quarterly investment report for the City Council within 30 days following the end of the quarter covered by the report. Following the guidelines of CGC Sections 53646(b) and 53607, the report shall include, at a minimum, the following information:

1. Details including the type of investment, issuer, date of maturity, interest rate, and the par value, cost and current estimated market value of the investment including the source of the market value provided.
2. Statement of compliance with investment policy, including a schedule of any transactions or holdings which do not comply with this policy or with the California Government Code, including a justification for their presence in the portfolio and a timetable for resolution, and a statement denoting the ability of the local agency to meet its pool's expenditure requirements for the next six months.
3. A summary, graph or chart of investments by type including the percent of investments by sector maturity.
4. Comparative data to the previous four quarterly reports.

5. A cover page summarizing investment activity including a list of investment transactions occurring within the quarter.

B. Annual Reports

The investment policy shall be reviewed and adopted at least annually within the first 90 days of each fiscal year to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

C. Annual Audit

The Finance Director shall establish an annual process of independent review by an external auditor to assure compliance with internal controls in coordination with the City's annual financial audit.

D. Special Audits

The City Council may at any time order an audit of the investment portfolio and/or the City Treasurer's investment practices.

E. Independent Investment Advisor

In its discretion, the City Treasurer may retain the services of an independent investment adviser to review the investment program. The adviser will review compliance with policies and procedures, independently calculate the market value of the City's holdings, report on overall portfolio risk exposure and investment results, and make recommendations, if needed, regarding investment strategy, risk, or any aspect of the investment program.

F. Investment Committee (RMC § 2.36)

It shall be the responsibility of the Investment Committee to:

1. Oversee the implementation of the City's investment program, assuring its consistency with the investment policy and recommend changes to the investment policy for consideration by the City Council.
2. Receive and review the quarterly investment reports described in Section V (A) at its quarterly meetings.
4. Review the City's portfolio activity and performance for suitability and compliance with this policy.
5. Make recommendations to the Finance Director/Treasurer regarding portfolio activity, performance and compliance with this policy.
7. Make recommendations to the City Council and the RCDC Commissioners regarding the use of specific local agency investment pools.
8. Inform the City Council of unaddressed concerns with the management of the City's investment portfolio.

GLOSSARY OF INVESTMENT TERMS

Agencies — Agencies of the Federal government set up to supply credit to various classes of institutions (e.g., S &Ls, small business firms, students, farmers, housing agencies, etc.)

Ask/Offer — The price at which securities are offered.

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

Benchmark — A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Bid Price — Price a prospective buyer is ready to pay.

Bond – Interest-bearing security issued by a corporation, government, government sponsored enterprise, which can be executed through a bank or trust company. The issuer covenants through an indenture or offering memorandum to pay to the bond holder periodic interest payments and principal at maturity. The bond may be secured by specific assets of the issuer or the general credit of the issuer.

Bond Discount: When a bond is sold at a price below its par value.

Broker/Dealer — Individual or firm acting as principal in securities transaction.

Callables — Securities that the issuer has the right to redeem prior to maturity.

Certificates of Deposit (CD) — A time deposit with a specific maturity evidenced by a certificate.

Collateral — Securities pledged to secure repayment of a loan.

Commercial Paper – Short term, unsecured, negotiable promissory notes issued by domestic corporations.

Comprehensive Annual Financial Report— An official annual financial report. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material and a detailed statistical section.

Coupon — a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value; b) A certificate attached to a bond evidencing interest due on a payment date.

Credit Risk – The risk that an issuer will default in the payment of interest or principal due on a security.

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.

Debenture — A bond secured only by the general credit of the issuer.

Delivery vs Payment — Delivery of securities with a simultaneous exchange of money.

Derivatives — a) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor; b)

Financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

Discount --- The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Discount Securities — Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

Diversification — Dividing investment funds among a variety of securities offering independent returns.

Federal Credit Agencies --- Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives and exporters.

Federal Deposit Insurance Corporation (FDIC) — A federal agency that insures bank deposits, currently up to $250,000.00 per deposit.

Federal Funds Rate — The rate of interest associated with borrowing a Federal Reserve bank's excess reserves. This rate is currently pegged by the Federal Reserve through open-market operations.

Federal Home Loan Banks (FHLB) — overnment sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banking services to member commercial banks, draft institutions, credit unions and insurance companies. The mission of FHLB's is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

Federal National Mortgage Association (FNMA) — A publicly owned government sponsored corporation chartered in 1938 to purchase mortgages from lenders and resell them to investors. FNMA is a federal corporation working under the auspices of the Department of Housing (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.

Federal Open Market Committee (FOMC) — a committee that sets interest rate and credit policies for the Federal Reserve System, the United States' central bank. The FOMC has 12 members. Seven are the members of the Federal Reserve Board, appointed by the president of the United States. The other five are presidents of the 12 regional Federal Reserve banks. Of the five, four are picked on a rotating basis; the other is the president of the Federal Reserve Bank of New York, who is a permanent member. The committee decides whether to increase or decrease interest rates through open market operations of buying or selling government securities. The committee's decisions are closely watched and interpreted by economists and stock and bond market analysts, who try to predict whether the Fed is seeking to tighten credit to reduce inflation or to loosen credit to stimulate the economy.

Federal Reserve System — System established by the Federal Reserve Act of 1913 to regulate the U.S. monetary and banking system. The Federal Reserve System (the Fed) is comprised of 12 regional Federal Reserve Banks, their branches, and all national and state that are a part of the system. The Federal Reserve System's main functions are to regulate the national money supply, set reserve requirements for member banks, supervise the printing of currency at the mint, act as clearinghouse for transfer of funds throughout the banking system, and examine member banks to make sure they meet various Federal Reserve regulations.

Government National Mortgage Association (GNMA or Ginnie Mae) — Government-owned corporations, nicknamed Ginnie Mae, which is an agency of the U.S. Department of Housing and Urban Development. Security holder is protected by 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 rate of interest received by an investor from the issuer for a security. Also known as “coupon” rate.

Intermediate Maturity — Investment period greater than one year but less than five years and one day.

Investment Committee — A committee chaired by the City Treasurer to advise on policies governing the City's investment program.

Liquidity — The ability to turn an asset into cash. The ability to buy or sell an asset quickly and in large volume without substantially affecting the asset’s price.

Local Agency Investment Fund (LAIF) — The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Local Agency Security Program (LASP) – Under California code, financial institutions that accept local agency deposits must participate in the LASP. The program provides for collateralization of deposits and reporting requirements.

Long-Term Maturity — Investment period greater than five years.

Long-Term Investment — Maturity on investment greater than five years, as of the date of purchase.

Market Value — The price at which a security is trading, usually the liquidation value.

Master Repurchase Agreement — A written contract covering all future transactions between the parties to repurchase---reverse repurchase agreements that establish each party’s rights in the transactions. A master repurchase agreement will often specify 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.

Medium-Term Notes (MTN) – Unsecured, investment-grade senior debt securities of major corporations that are sold either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or investor preferences.

Money Market — The market in which short-term debt instruments (Treasury bills, commercial paper, bankers’ acceptances, etc.) are issued and traded.

Mutual Funds – Pools of money that are managed by an investment company. Investors are offered a variety of goals, depending on the fund and its investment charter.

National Credit Union Administration (NCUA) – Federal agency that insures the accounts in all federal credit unions and many state-chartered credit unions.

Negotiable Certificate of Deposit – A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

Offer — Price at which someone who owns a security offers to sell it, also known as the asked price.

Open Market Operations — Activities by which the Securities Department of the Federal Reserve Bank of New York, popularly called the desk, carries out instructions of the Federal Open Market Committee designed to regulate the money supply. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

Original Cost – The price paid for a security.

Par Value – The face value of a security expressed as a dollar amount. This is the amount due at maturity.

Portfolio — Collection of securities held by an investor.

Premium – The difference between the cost price of a security and its par value, when the cost is higher than par.

Primary Dealer — Investment dealers authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its execution of Fed Open Market Operations. Such dealers must be qualified in terms of reputation, capacity, and adequacy of staff and facilities.

Principal – The face or par value of a security. It does not include interest.

Prudent Person Rule — Standard adopted by some U.S. states, including California, to guide those with responsibility for investing money of others. Such fiduciaries, such as trustees, must act as a prudent man or woman would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments.

Qualified Investment — An investment instrument (such as an insured certificate of deposit of $100,000 with California chartered savings and loan) which is approved by this policy or pursuant to procedures set forth in this policy.

Range Note — An investment instrument that pays a high interest rate, if a given index falls within a stipulated range, but pays no interest if the stipulated index falls outside that range.

Rate of Return — The yield obtainable on security based on its purchase price or its current market price.

Repurchase Agreement (RP or REPO) — An agreement of one party (financial institution) to sell securities to a second party (local agency) and a simultaneous agreement by the first party to repurchase the securities at a specified price from the second party on demand or at a specified date.

Required Reports — Sections 53600 et seq. of the Government Code specify that certain information be transmitted to the City's governing body and chief executive officers by the City's chief fiscal or investment officer periodically.

Safety — The ability of a security issuer to guarantee redemption of their security.

Safekeeping — Service provided by banks and rust companies for clients when the bank or trust company stores the securities, takes in coupon payments, and redeems issues at maturity. (Also see custody)

Secondary Market — A market made for the purchase and sale of outstanding issues following the initial distribution.

Securities & Exchange Commission — Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC Rule 15C3-1 — See Uniform Net Capital Rule.

Settlement Date – The date by which an executed security trade must be settled. That is, the date by which a buyer must pay for the securities delivered by the seller.

Short-term Maturities — Investment period of one year or less.

Supranational – International institutions formed by two or more governments that transcend boundaries to pursue mutually beneficial economic or social goals.

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 10 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 10 years.

Trustee – A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

Uniform Net Capital Rule — Securities and Exchange Commission requirement that member firms as well as nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members.

Yield — Percentage rate of interest received versus the purchase price of the instrument if held to maturity.