CITY OF Alameda

Investment Policy

I. Statement of Purpose and Adoption of Policy

It shall be the investment policy of the City of Alameda that all funds expenditures are invested in compliance with this statement, as well as applicable federal, state and local legislation governing the investment of public funds. Funds shall be invested in a manner that will provide the highest investment return with the appropriate level of security, while meeting the daily cash flow demands of the City.

Safeguards will be set into place to ensure that adequate operating reserves are established and maintained to provide that cash, in sufficient amounts, will be available to pay for immediate expenditures as authorized by the City's budget. Funds so maintained will be deposited in a manner best serving the City.

It will be further recognized that the City has a responsibility to monitor the security of its assets and always maintain a level of quality so that the public at large will have the highest confidence that its best interests are being served.

The purpose of this document is to identify various policies and procedures that enhance opportunities for a systematic investment process. The initial step toward a prudent investment policy is to organize and formalize investment related activities. Related activities, which comprise good cash management, include accurate cash projection, the expeditious collection of revenue, the control of disbursements, cost effective banking relations, and a short-term borrowing program, which coordinates working capital requirements and investment opportunities. In concert with these requirements are the many facets of an appropriate and secure investment program.

The City's Investment Policy shall be adopted by the City Council. The policy shall be reviewed at least annually by the City Treasurer and the Finance Director, and any modifications must be approved by City Council.

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such funds shall be reinvested only as provided by this policy.

II. Scope

It is intended that this policy cover all operating funds and investment activities under the direct authority of the City. These funds are described in the City’s Comprehensive Annual Financial Report and include its General Fund, Capital Projects Funds, Special Revenue Funds, Enterprise Funds, Internal Service Funds, Fiduciary Funds and Successor Agency Trust Funds.

This investment policy applies to all transactions involving the financial assets and related activities of the foregoing funds. Except for cash held in separate restricted funds, the City will pool cash balances from all funds for investments to maximize earnings and efficiencies with regards to investment pricing, safekeeping and administration. Investment income will be allocated to the City’s funds based upon their respective average monthly balances and in accordance with Generally Accepted Accounting Principles (GAAP).

This investment policy does not apply to bond proceeds, deferred compensation funds, retirement or other post-employment benefits trust funds as these are governed under separate California Government Code sections or other documentation.

III. **Objectives and Performance Standards**

The primary objectives, in priority order, of the City's investment activities shall be:

A. ***Safety***: Safety of principal is the foremost objective of the City's investment program, followed by liquidity and yield. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the City's portfolio. To obtain this objective, the City will diversify its investments by investing funds among a variety of securities offering varying risk and return characteristics. Each investment transaction shall seek to first ensure that capital losses are avoided from securities default or erosion of market value. Investment decisions should not incur unreasonable investment risks in order to obtain current investment income.

B. ***Liquidity***: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated. This need for investment liquidity may be tempered to the extent that the City is able to issue short-term notes to meet its operating requirements. Emphasis will be on marketable securities with low sensitivity to market risk. Maturities of investments for which there is limited opportunity for resale shall be staggered to maximize liquidity.

C. ***Return***: The City maintains an active investment strategy and its investment portfolio shall be designed to attain a rate of return which approximates benchmarks to be selected by the City's investment advisory committee throughout budgetary and economic cycles, taking into account the City's investment risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restricts the investment of funds.

D. ***Other Preferences***: Where all other factors are equal, as a final consideration the following preferences for investing in institutions will be given in order:

a. Institutions principally located in the City
b. Institutions principally located in the County
c. Institutions principally located in the State
d. Institutions principally located in the United States

E. ***Other Objectives***: Investments are to be made that will bear in mind the responsibility of city government to its citizens. Alternative investments, which enhance the quality of life, will be given full consideration. Investments, which serve to only enrich a few to the detriment of the people, will be strictly avoided. No investment is to be made in a company that receives more than 51% of gross revenues from the production or manufacture of cigarettes, alcohol, or gambling products, nor is any investment to be made in any company involved in the coal industry (defined as any company classified under Bloomberg Industry Classification Systems (BICS) code 131016). In addition, investing in Wells Fargo securities, when Wells Fargo is the issuer, will be prohibited at least until 2021.

F. **Performance Standards**: The investment portfolio will be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with investment risk constraints and cash flow needs. The City's basic investment strategy is to actively manage its investment portfolio. A security maybe sold due to adverse changes in credit risk or due to unexpected cash flow needs. The total return benchmark used by the Treasurer to determine whether market yields are being achieved and shall be the rates of return from the following combination of indices: Local Agency Investment Fund (LAIF), ICE Bank of America Merrill Lynch (BAML) 1-3 years US Treasury/Agency Index and ICE Bank of America Merrill Lynch (BAML) 1-5 years US Treasury/Agency Index.

IV. Prudence and Risk Tolerance

The City recognizes that investment risks of the following can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity:

A. Credit risk is the possibility that deterioration of an issuer's creditworthiness will adversely affect the value of its bonds or that an issuer will not make timely payments of interest or principal on its bonds (default). A decline in a bond issuer's credit rating, or creditworthiness, may cause prices for its outstanding bonds to decline. This shall be mitigated by limiting investments to those allowed under this policy and by diversification.

B. Market or Interest Rate risk, defined as market value fluctuations due to overall changes in market price, shall be mitigated by eliminating the need to sell securities prior to maturity and investing operating funds primarily in shorter-term securities, money market funds or similar investment pools, thereby limiting the average maturity of the portfolio. Investments shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the safety of their capital as well as the income to be derived.

In accordance with Government Code Section 53600.3, the standard of prudence to be used by investment officers shall be the "prudent investor standard", and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the City's investment policy and exercising due diligence shall be relieved of personal liability for an individual security credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

V. Internal Controls

The Finance Director will establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees and officers of the City. Controls deemed most important include: control of collusion, segregation of duties, separating transaction authority from accounting and recordkeeping, custodial safekeeping, clear delegation of authority, written confirmation of telephone transactions, minimizing the number of authorized investment officials, documentation of transactions and strategies, and code of ethical standards. In addition, whenever possible, pre-formatted wire transfers will be used to transfer funds to pre-authorized accounts.

The City Auditor shall establish an annual process for independent review of these controls by an external auditor. This review will help to ensure compliance with the City's investment policies and procedures.

VI. Investment Procedures and Delegation of Authority

Article V of the Charter of the City of Alameda assigns responsibility to monitor and report on the results of the investment portfolio with the Treasurer. Further, Section 53636 of the Government Code of the State of California provides that money on deposit is deemed to be in the treasury of the City. Although the responsibility for the oversight of the City's investment program resides with the Treasurer, the day to day investment function is hereby delegated to the Finance Director, who shall establish written procedures for the operation of the investment program, consistent with this investment policy

Such procedures shall include a system of controls and explicit delegation to subordinate staff of authority for all investment activities, including investment transactions, procedures addressing safekeeping, wire transfer agreements, contracts, banking services, and procedures to be used in the absence of the Finance Director. No person shall engage in an investment activity except as provided for in the documented system of the internal controls and procedures.

The City may 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 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.

VII. Safekeeping and Custody

Guidelines - All security transactions entered into by the City shall be conducted on a delivery versus payment (DVP) basis as evidenced by safekeeping receipts in the City's name.

To protect against fraud and embezzlement, the investment securities of the City shall be held in the City's safe or held by a third party custodian according to established safekeeping procedures. Custody will be evidenced by safekeeping receipts.

Securities purchased from brokers/dealers shall be held in a third party custodian account, which the City has established for safekeeping. Said securities are to be held in the name of the City with the trustee executing investment transactions as directed by the appropriate City official.

Receipts for confirmation of purchase of authorized securities must include trade date, pay value, maturity, rate, price, yield, and settlement date, description of securities purchased, agency's name, and third party custodian information.

Trust Agreements - The City shall direct the investment activities of trustees. Such direction shall be in keeping with the terms and condition of its trust agreements, applicable law and policies set forth in the Investment Policy. In addition to the acceptable investment instruments listed in Section IX, A thru K, bonds proceeds may be invested in securities permitted under Government Code Section 53635 and other investment instruments allowed by State law, and which comply with requirements imposed by bond insurance and rating agencies.

VIII. Authorized Banks and Financial Securities Dealers and Institutions

The Treasurer in coordination with the Finance Director shall approve all financial institutions from which securities are purchased. Deposits shall only be made in a qualified public depository as allowed under State Statute. In selecting financial institutions for the deposit or investment of City funds, the Treasurer will consider the credit rating of the institutions. These financial institutions shall be authorized to provide investment services in the State of California.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the City Treasurer and Finance Director with the following: audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of state/province registration, a completed broker/dealer questionnaire, and a written certification agreeing to abide by the City's investment policy and depository contracts.

An annual review of the financial condition and registrations of qualified bidders may be conducted by the City Treasurer or designee. As part of any review performed, a current audited financial statement will be obtained for those financial institutions and brokers/dealers subject to review. Whenever reasonable a competitive bid process, utilizing a minimum of three financial institutions deemed eligible by the Treasurer, will be used to place investment purchases. The City shall transact business only with banks, savings and loans, and with brokers/dealers approved by the Investment Advisory Committee. If the City contracts with an outside investment manager, the investment manager may use its own list of authorized broker/dealers to conduct transactions on behalf of the City. The investment manager shall provide the City with their list of approved broker/dealers annually.

IX. Authorized Investments, Maximum Maturities and Investment Amounts

Concentration limits and credit criteria apply at time of purchase. The following represent the maximum maturities for and maximum percentage or dollar amounts that may be invested in specific investment types:

Investment Type	Maximum % or $	Maximum Maturity	Minimum Required Rating
Bank/Time Deposits	None	5 years	N/A
U.S. Treasuries	None	5 years	N/A
U.S. Agencies	75%; 25% for one issuer	5 years	N/A
Mutual Funds and Money Market Funds	20% (10% with one issuer)	5 years	Highest rating by 2 NRSROs
Bankers Acceptances	30% (5% with one issuer)	180 days	A1 or its equivalent
Commercial Paper	25% (5% with one issuer)	270 days	A1 or its equivalent, "A" rated issuer or its equivalent
Negotiable CDs	30% (combined with CDARS) (5% with one issuer)	5 years	No rating for amount under FDIC insurance; A-1 / "A" for amounts greater than FDIC insurance
LAIF	Per State Statute ($75 million as of 1/1/20)	N/A	N/A
CAMP / CalTRUST	None	N/A	N/A
CDs - non-negotiable / CDARS	30% (combined with NCDs) (5% with one issuer)	3 years	N/A
Municipal Obligations	30% (5% with one issuer)	5 years	"A" or equivalent (except Ci bonds)
Medium Term Notes	30% (5% with one issuer)	5 years	"A" or equivalent
Supranationals	15% (US Dollar denominated) (10% with one issuer)	5 years	"AA" or equivalent
Asset-Backed Securities	20% (5% with one issuer)	5 years	"AA" or equivalent rated issue

As specified in Government Code Section 53601, the City Council must expressly authorize the investment of funds that mature in excess of five years. Placement of such investments cannot occur until three months have lapsed from the date of authorization. Bond covenants may allow for a longer term investment for bond reserves held with a fiscal agent.

It is the intent that investments shall be managed in such a way that any market price losses resulting from interest-rate volatility would be offset by coupon income and current income received from the overall portfolio over market cycles. To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements.

Pursuant to Government Code Section 53601 et seq. the City may only invest in the following security types (See Attachment A – Glossary, for a detailed description of each of these investment types):

A. ***U.S. Government Treasury Bills and Notes***

B. ***Federal Agency or United States Government-Sponsored Enterprise (GSE) Obligations, Participations, or Other Instruments*** - including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

C. ***Certificates of Deposit*** (non-negotiable) (CDs) – The City is authorized to use of private CD placement services by local agencies. This investment policy allows for the use of a placement service called the Certificate of Deposit Account Registry Service (CDARS), which acts as the master custodian for the placement of CDs. Through the use of this placement service, local banks that work with CDARS place one investment by the City and divide the deposit into individual CDs not to exceed $250,000, so that each individual CD is fully insured by the FDIC.

D. ***Bankers Acceptances*** (BA)

E. ***Commercial Paper*** - Prime commercial paper with an A1/P1 rating, or the equivalent, as provided for by a nationally recognized statistical-rating organization (NRSRO). Purchases must be limited to corporations organized and operating within the United States, having total assets in excess of $500 million, and has debt other than commercial paper, if any, rated in a rating category of “A” or its equivalent or higher by a NRSRO. In addition, purchases may not represent more than ten percent (10%) of the outstanding paper of an issuing corporation.

F. ***State of California Local Agency Investment Fund (LAIF)***

G. ***CalTRUST***

H. ***California Asset Management Program (CAMP)***

I. ***Negotiable Certificates of Deposit*** - Must be issued by a nationally or state chartered bank, savings association or a federal association, a state or federal credit union, or by a federally- or state-licensed branch of a foreign bank.

J. ***Medium Term Corporate Notes*** - Notes issued by corporations 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. Eligible investments shall be rated in a rating category of “A” or its equivalent or better by an NRSRO.

If a corporate note owned by the City is downgraded below the quality required by this Investment Policy, it shall be the City’s policy to review the credit situation and make a determination as to whether to sell or retain such a corporate note in the portfolio.

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

b. If a security is downgraded one grade below the level required by this policy and matures within 6 months, the security will be held to maturity. The City Treasurer may determine to sell the security if it is determined that there is a probability of default prior to maturity. If a decision is made to retain the security in the portfolio, its presence in the portfolio will be monitored and reported quarterly to the City Council.

K. ***Municipal Obligations*** – Must be rated "A" or its equivalent or higher by a NRSRO except for the City's own bonds and bonds issued by the City's former Community Improvement Commission and its Financing Authority, which may have any rating. Municipal Obligations include the following:

a. Registered state warrants or treasury notes or bonds of the State of California and bonds, notes, warrants, or other evidences of indebtedness of any local agency within California, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the state or local agency or by a department, board, agency, or authority of the state or local agency.

b. Registered treasury notes or bonds of any of the 49 United States in addition to the State of 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 any of the other 49 United States, in addition to the State of California.

L. **Mutual Funds and Money Market Mutual Funds** – that are registered with the Securities and Exchange Commission under the Investment Company Act of 1970, provided that:

a. 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:

1. Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs, or

2. 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.

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

b. 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:

1. Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs, or

2. 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.

3. No more than 10% of the total portfolio may be invested in Money Market Mutual Funds.

c. No more than 20% of the total portfolio may be invested in these securities.

M. ***Supranationals –*** Must be rated "AA" or its equivalent or higher by a NRSRO and is U.S. dollar denominated senior unsecured unsubordinated obligations issued by the International Bank for Reconstruction and Development, International Finance Corporation, or the Inter-American Development Bank.

N. ***Asset-Backed Securities (ABS) –*** Security must be rated "AA" or its equivalent or higher.

O. ***Prohibited Investments*** - The City's investment pool will not enter into: repurchase or reverse repurchase agreements, mortgage backed securities/collateralized mortgage obligations, nor trade in options or future contracts. In accordance with Government Code Section 53601.6, no investment shall be made by the City in any of the following instruments: inverse floaters, range notes, interest only strips, and any security that could result in zero interest accrual if held to maturity.

X. Due Diligence: Adding Investment Pools / Mutual Funds / Money Market Mutual Funds

Thorough investigations of the pool / fund are required prior to investing and on a regular basis. Information should be obtained from the pool / fund regarding the following items:

- Authorized Investments
- Interest Calculations / Distributions
- Fee Schedule / Who May Invest
- Frequency of Statements
- Safeguarding of Investments
- Deposit / Withdrawal Limitations
- Investment Policy and Objectives
- Investment Limitations
- Eligibility for holding Bond Proceeds
- Treatment of Gains and Losses
- Settlement Process
- Utilization of Reserves by Fund

XI. Diversification

It is the policy of this City to diversify the investment portfolio in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. See Section IX for limitations by category on the investment of City funds. Maturities shall be selected which provide for stability of income and reasonable liquidity. Concern for liquidity shall be insured through practices that include covering the next vendor disbursement date and payroll date through maturing investments. Risks of market price volatility shall be controlled through maturity and issuer diversification.

In order to reduce portfolio risk, the City's portfolio will be diversified by type and issuer. The portfolio shall be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. The City shall diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions. In a diversified portfolio, occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return.

XII. Collateralization

Collateral for time deposit in savings and loans is to be held by the Federal Home Loan Bank. Collateral for time deposits in banks is to be held in the City's name in the bank trust department or by the Federal Reserve. Bank Collateralization is required on Certificates of Deposit (non-negotiable) in excess of $250,000. (California Government Code Section 53652 (a)). The City chooses to limit collateral to eligible securities authorized under the Government Code.

Collateral pledged with a U. S. Treasury Bill or Note must be at least 110% of the face value of the investment. Collateral pledged with first mortgages must be at least 150% of the face value of the investment. The right of collateral substitution may be granted by the City. Collateral will always be held by an independent third party with whom the financial institution has a current custodial agreement. These parties are limited to only those trust companies and trust departments, or the Federal Home Loan Bank of San Francisco, which have been approved by the California State Superintendent of Banks.

XIII. Ethics and Conflicts Of Interest

Officers and employees involved in the investment process 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. Employees and investment officials shall disclose to the City Clerk and material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial or investment positions that could be related to the performance of the City.

These disclosure requirements shall include complying with the disclosure and disqualification requirements as established by the Fair Political Practices Commission and Conflict of Interest Codes of the City. A copy of each Investment Official's Statement of Economic Interest, which is required to contain disclosure of any material financial interests in financial institutions doing business in the City, shall be filed annually with the City Clerk.

XIV. Investment Advisory Committee / Reporting Requirements

An Investment Advisory Committee has been formed for the purpose of overseeing the implementation of the City's investment program and assuring it is consistent with the investment policy as approved by the City Council. The advisory committee shall consist of the City Treasurer, Finance Director (as representative of the City Manager) and the Financial Services Manager.

The Investment Advisory Committee will meet as needed or as market or economic condition changes to determine general strategies and to monitor results. The committee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, potential risks to the City's funds, approval of authorized financial institutions, and the target rate of return on investment portfolio. The written investment procedures shall be reviewed by the investment advisory committee on an annual basis.

The Finance Director, with the concurrence of the Treasurer, shall submit a quarterly investment report to the City Council in order to provide a clear picture of the status of the current investment portfolio. This report will list all of the City's investments as of the end of the quarter, compute average yield and average life of the portfolio as well as all required elements of the quarterly report for each investment, including:

- Issuer
- Date of maturity / weighted average maturity (WAM) / Duration
- Purchase Date
- Coupon and Effective interest rates
- Book and Market Values
- Percentage of portfolio in each category
- Rating of security
- Call date, if applicable

The management report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments", as of June 30th of each Fiscal Year the City will report all investments in excess of one year at market value. Any change in the value of the investments will be recognized on an annual basis, as a part of interest income.

The quarterly information shall state compliance of the portfolio with the City's investment policy, or the manner in which the portfolio is not in compliance. The quarterly information shall also include a statement that the City is able to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money may not be available. The quarterly information shall be submitted to the City Manager and City Council within 30 days following the end of the quarter, or as soon as practicable after the data is available to the City.

Certified by:

Kevin Kennedy
City Treasurer

Attachment A
Glossary

A

Accrued Interest: Coupon interest accumulated on a bond or note since the last interest payment or, for a new issue, from the dated date to the date of delivery.

Agencies: Federal agency securities and/or Government-sponsored enterprises. These include securities of government agencies such as, but not limited to: Federal National Mortgage Association (FNMA); Federal Home Loan Bank (FHLB); Government National Mortgage Association (GNMA); Community Development Corporation (CDC), Small Business Association (SBA), Tennessee Valley Authority (TVA), Federal Farm Credit Bank (FFCB) and Federal Home Loan Mortgage Corporation (FHLMC).

Arbitrage: Transactions by which securities are bought and sold in different markets at the same time for the sake of the profit arising from a yield difference in the two markets. The 1986 Tax Reform Act made this practice by municipalities illegal solely as a borrowing tactic, except under certain safe-harbor conditions.

Asked: The price at which securities are offered.

Asset-Backed Securities (ABS): Securities that are supported by pools of assets, such as installment loans or leases, or by pools of revolving lines of credits. Asset-backed securities are structured as trusts in order to perfect a security interest in the underlying assets.

B

Bank Deposits: To deposit collateral in the form of currency that may be in the form of demand accounts (checking) or investments in accounts that have a fixed term and negotiated rate of interest.

Bank Notes: A senior, unsecured, direct obligation of a bank or U.S. branch of a foreign bank.

Bankers' Acceptance (BA): These are bills of exchange or time drafts drawn on, and accepted by, commercial banks in the top 100 of the world, which are eligible for purchase by the Federal Reserve System. Acceptance of the draft obligates the bank to pay the bearer the face amount of the draft at maturity. In addition to the guarantee by the accepting bank, the transaction is secured with a specific commodity. The sale of the underlying goods will generate the funds necessary to liquidate the indebtedness. BAs are usually created to finance the import and export of goods, the shipment of goods within the United States and the storage of readily marketable staple commodities. BAs are sold at a discount from par and the amount and maturity date are fixed.

Basis Point: Refers to the yield on bonds. Each percentage point of yield in bonds equals 100 basis points (1/100% or 0.01%). If a bond yield changes from 7.25% to 7.39% that is an increase of 14 basis points.

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: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

Bond Proceeds: The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These moneys are used to finance the project or purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract.

Bonds: A debt obligation of a firm or public entity. A bond represents the agreement to repay the debt in principal and, typically, in interest on the principal.

Book Entry: The system maintained by the Federal Reserve, by which most money market securities are delivered to an investor's custodial bank. The Federal Reserve maintains a computerized record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment).

Book Value: The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of any premium or discount.

Broker: A broker assists in the buying and selling of investments together for a commission.

California Asset Management Program (CAMP): CAMP is a money market portfolio rated AAAm by Standard and Poor's and created for California Public Agencies. Similar to LAIF, CAMP provides daily liquidity, money market returns and unlimited number of deposits and withdrawals. CAMP may hold a broader range of securities that would not be eligible under the City investment criteria. Since CAMP is subject to different statutory investment provisions, any such variances in their holdings are acceptable under this policy

Call Price: The price at which an issuer may redeem a bond before maturity

Callable Bond: A bond issue in which all or a part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions

CalTRUST: a Joint Powers Authority created by public agencies to provide a convenient method for public agencies to pool their assets for investment purposes. CalTRUST is governed by a Board of Trustees made up of experienced local agency treasurers and investment officers. The Board sets overall policies for the program and oversees the activities of the investment manager and other agents.

CD Placement Service: A private CD placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS (Certificate of Deposit Account Registry

System) is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

Certificate Of Deposit (CD): See "Non-Negotiable" and "Negotiable" Certificate of Deposit. Large-denomination CDs are typically negotiable.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: Unsecured promissory notes issued to finance short term credit needs, with maturities ranging from 2 to 270 days. Unsecured promissory notes are issued to finance short term credit needs. The paper must be of "prime" quality of the highest ranking, or of the highest letter and numerical rating as provided by Moody's or Standard & Poor's. Eligible paper is further limited to issuing corporations that are organized and operate within the United States, have total assets in excess of $500 million, and have an 'A1-P1' rating for its debt from Moody's or Standard & Poor's.

Comprehensive Annual Financial Report (CAFR): The official annual report for the City. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

Corporate Notes and Bonds: Debt instruments, typically unsecured, issued by corporations, with original maturities in most cases greater than one year and less than ten years. Medium term notes (MTN) are unsecured, corporate and depository institution debt obligations. Allowable medium term notes must be issued by corporations organized and operating within the United States (U.S.) or by depository institutions licensed by the U.S. or any state and operating within the U.S. MTNs must be rated "A" or its equivalent or higher by Moody's or Standard and Poor's.

County Pooled Investment Funds: The aggregate of all funds from public agencies placed in the custody of the county treasurer for investment and reinvestment.

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

Credit Rating: Various alphabetical and numerical designations used by institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness. Standard & Poor's and Fitch Ratings use the same system, starting with their highest rating, of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody's Investors Service uses Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C, and D. Each of the services use pluses (+), minuses (-), or numerical modifiers to indicate steps within each category. The top four letter categories are considered investment grade ratings.

Credit Risk: The chance that an issuer will be unable to make scheduled payments of interest and principal on an outstanding obligation. Another concern for investors is that the market's perception of a corporation's credit will cause the market value of a security to fall, even if default is not expected.

CUSIP Number: The Committee on Uniform Security Information Procedures (CUSIP) Number refers to a security's identification number assigned to each publicly traded security by the CUSIP Service Bureau operated by Standard & Poor's for the American Bankers Association. The CUSIP Number is a nine-character identifier unique to the issuer, the specific issue and the maturity, if applicable (the first six characters identifying the issuer, the next two identifying the security and the last digit provides a check digit to validate the accuracy of the preceding CUSIP number).

Custodian: A bank or other financial institution that keeps custody of stock certificates and other assets.

D

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

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

Defeased Bond Issues: Issues that have sufficient money to retire outstanding debt when due so that the agency is released from the contracts and covenants in the bond document.

Delivery versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Derivatives: 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, or financial contracts based upon 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 after sale is considered sold at a discount.

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

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.

Duration: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

E

Effective Duration: A measure of the price sensitivity of fixed-income investments, especially for those with embedded option features such as call options. As yields rise, the effective duration of a callable investment rises to reflect the fact that it has become less likely to be called. The more rates rise, the longer the effective duration will become, approaching the duration to maturity. The converse is true in a declining interest rate environment (that is, the more rates fall, the shorter the effective duration will become, approaching the duration to call). For securities without an embedded option, the duration to call, maturity, and effective duration are all the same. The calculation for effective duration involves averaging the duration under a simulation of many possible interest rate scenarios in the future.

Extendable Notes: Securities with maturity dates that can be extended by mutual agreement between the issuer and investor. When investing in these types of securities, the maturity date plus the stated extendable option must not exceed the time frames that are allowed in California Government Code or the investment policy for the investment type.

Federal Credit Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, *e.g.*, banks, small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, up to $250,000 per deposit.

Federal Funds Rate: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

Federal Home Loan Banks (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift 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 or Freddie Mac): A United States government sponsored corporation.

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 is a private stockholder-owned corporation and its purchases include a variety mortgages and second loans. 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): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

Fiduciary: A person who holds something in trust for another and bears liability for its safekeeping.

Financial Industry Regulatory Authority (FINRA): A self-regulatory organization (SRO) of brokers and dealers in the over the counter securities business. Its regulatory mandate includes authority over business dealings conducted between dealers, brokers and all public investors.

First Tier Securities: Securities that have received short-term debt ratings in the highest category from the requisite nationally recognized statistical-rating organizations (NSROS), or are comparable unrated securities, or are issued by money market funds, or government securities. [See sec Rules: Paragraph (a)(12) of rule 2a-7]

G

Government Accounting Standards Board (GASB): A standard-setting body, which prescribes standard accounting practices for governmental units.

Government National Mortgage Association (GNMA or Ginnie Mae): 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 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.

Guaranteed Investment Contracts (GICS): An agreement acknowledging receipt of funds for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest.

H-I

Interest: The amount a borrower pays to a lender for the use of his or her money.

Interest Rate Risk: The potential for a decline in bond prices and the market value of bonds in the portfolio, due to rising market interest rates. In general, bond prices vary inversely with interest rates. The change in a bond’s price depends on several factors, including its maturity date. In general, bonds with longer maturities are more sensitive to changes in interest rates than bonds with shorter maturities. Similarly, bond funds with longer average portfolio maturities, such as the CalTRUST Medium-Term and Long-Term Accounts, will be more sensitive to interest rate changes than those with shorter average portfolio maturities, such as the CalTRUST Short-Term account.

Investment Agreements: Investment agreements are contracts with respect to funds deposited by an investor. Investment agreements are often separated into those offered by banks and those offered by insurance companies. In the former case, they are sometimes referred to as “bank investment contracts.”

L

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

Liquidity Risk: The chance that a security, sold prior to maturity, will be sold at a loss of value. For a local agency, the liquidity risk of an individual investment may not be as critical as how the overall liquidity of the portfolio allows the agency to meet its cash needs.

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. LAIF was created in the California State Treasury by Section 16429 GC. LAIF holds local government funds in trust in a state investment pool in order to provide safety, liquidity and the benefits of the investment pool yield for local government entities invested in LAIF. LAIF may hold a broader range of securities that would not be eligible under the City investment criteria. Since LAIF is subject to different statutory investment provisions, any such variances in the LAIF pool holdings are appropriate exceptions for City purposes.

M

Market Risk: The chance that the value of a security will decline as interest rates rise. In general, as interest rates fall, prices of fixed income securities rise. Similarly, as interest rates rise, prices fall. Market risk also is referred to as systematic risk that affects all securities within an asset class similarly.

Market Value: The price at which a security is trading and could presumably be purchased or sold on a specific date.

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase and 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 payable.

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded. Rule 2a-7 of the Investment Company Act applies to Money Market Funds, which mandates these funds to maintain certain standards, including a 13 month maturity limit and a 90 day average maturity on investments, to maintain a constant net asset value of $1.00.

Mortgage Backed Securities (MBS): Mortgage-backed securities (MBS) are created when a mortgagee or a purchaser of residential real estate mortgages creates a pool of mortgages and markets undivided interests or participations in the pool. MBS owners receive a prorata share of the interest and principal cash flows (net of fees) that are "passed through" from the pool of mortgages. MBS are complex securities whose cash flows are determined by the characteristics of the mortgages that are pooled together. Investors in MBS face prepayment risk associated with the option of the underlying mortgagors to pre-pay or payoff their mortgage. Most MBS are issued and/or guaranteed by federal agencies and instrumentalities (e.g., Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC)).

Mortgage Pass-Through Obligations: Securities that are created when residential mortgages (or other mortgages) are pooled together and undivided interests or participations in the stream of revenues associated with the mortgages are sold.

Mutual Funds: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

N

Nationally Recognized Statistical Rating Organizations (NSROs): Credit rating agencies whose ratings are permitted to be used for regulatory purposes such as Securities and Exchange Commission.

Negotiable Certificate Of Deposit (NCD): A large denomination certificate of deposit which can be sold in the open market prior to maturity. Generally, it is a short-term debt instrument that usually 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. The majority of negotiable CDs mature within six months, while the average maturity is two weeks. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor). These instruments are supported only by the strength of the institution issuing them.

Net Asset Value (NAV): A term used in the mutual fund industry to determine the average price per share of a pool or mutual fund. How this measure varies over time provides information on whether the pool is stable or variable. NAV is the market value of all securities in a mutual fund, less the value of the fund's liabilities, divided by the number of shares in the fund outstanding. Shares of mutual funds are purchased at the funds' offered NAV.

Net Present Value: An amount that equates future cash flows with their value in the present terms.

Non-Negotiable Certificates of Deposit: Funds deposited in nationally or state chartered banks or state or federal associations for a specified period of time at a specified rate of interest. The first $250,000 is guaranteed by the Federal Deposit Insurance Corporation (FDIC) for banks, the Federal Savings and Loan Insurance Corporation (FSLIC) for savings and loan associations and the National Credit Union Share Insurance Fund (NCUSIF) for credit unions. CDs with a face value in excess of $250,000 must be collateralized at 110% of market value with pledged securities of the banking institution.

Note: A written promise to pay a specified amount to a certain entity on demand or on a specified date. Usually bearing a short-term maturity of a year or less (though longer maturities are issued—see "Medium-Term Note").

O

Offer: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

Open Market Operations: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

Options: A contract that gives the buyer the right to buy or sell an obligation at a specified price for a specified time. Exchange Traded Options are standardized option contracts that are actively traded on the Chicago Board of Exchange on a daily basis, whereas over the counter options are traded directly between the buyer and seller at agreed upon prices and conditions (the former type of option is therefore more liquid than the latter).

P-Q

Par Amount Or Par Value: The principal amount of a note or bond which must be paid at maturity. Par, also referred to as the "face amount" of a security, is the principal value stated on the face of the security. A par bond is one sold at a price of 100 percent of its principal amount.

Portfolio: Collection of securities held by an investor.

Premium: The amount by which the price paid for a security exceeds the security's par value. Investors pay a premium to purchase a security when the return to the investor (yield) is lower than the stated coupon (interest rate) on the investment.

Price: Price is the amount of monetary consideration required by a willing seller and a willing buyer to sell an investment on a particular date.

Primary Dealer: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include the Securities and Exchange Commission (SEC), registered securities broker-dealers and banks.

Principal: The face value or par value of a debt instrument, or the amount of capital invested in a given security.

Prospectus: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC that typically includes information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement").

Prudent Person Rule: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state, the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking an income and preservation of capital.

Qualified Public Depositories: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

R

Rate Of Return: The yield on a security based on its purchase price or its current market price. This may be the amortized yield to maturity, on a bond it is the current income return.

Reverse Repurchase Agreements: An agreement of one party (for example, a financial institution) to purchase securities at a specified price from a second party (such as a public agency) and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

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 him for this. Dealers use RP extensively to finance their positions. One exception is when the Federal Reserve is said to be doing RP, it is lending money that is increasing bank reserves.

Risk: The uncertainty of maintaining the principal or interest associated with an investment due to a variety of factors.

Rule G-37 Of The Municipal Securities Rulemaking Board: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities.

S

Safety: In the context of investing public funds, safety relates to preserving the principal of an investment in an investment portfolio; local agencies address the concerns of safety by controlling exposure to risks.

Safekeeping: A service to customers rendered by banks for a fee, whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

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 when a trade is cleared by delivery of securities against funds

Structured Notes: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, etc.) and

Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, and derivative based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

Supranationals: International financial institutions that are generally established by agreements among nations, with member nations contributing capital and participating in management. Supranational bonds finance economic and infrastructure development and support environmental protection, poverty reduction, and renewable energy around the globe.

Swap: A swap is any financial transaction that involves the simultaneous purchase of a security and the sale of another for the purpose of enhancing an investor's portfolio. Swap transactions of interest to California public investors include portfolio swaps and interest rate swaps.

T

Tax and Revenue Anticipation Notes (TRANS): Notes issued in anticipation of receiving tax proceeds or other revenues at a future date.

Time Deposits: Issued by depository institutions against funds deposited for a specified length of time. Time deposits include instruments such as deposit notes. They are distinct from certificates of deposit (CDs) in that interest payments on time deposits are calculated in a manner similar to that of corporate bonds, whereas interest payments on CDs are calculated similar to that of money market instruments.

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 to 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 powers to act in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

U

Underwriter: A dealer that purchases a new issue of municipal securities for resale.

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 of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

U.S. Treasury Obligations: These are debt obligations of the U.S. Government sold by the Treasury Department in the forms of bills, notes, and bonds, for which the full faith and credit of the United States are pledged for the payment of principal and interest. Bills are short-term obligations that mature in one year or less and are sold at a discount. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more**.**

W-Z

Weighted Average Maturity (WAM): The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

Yield (Yield to Maturity, Yield to Call or Yield to Worst): The rate of annual income return on an investment, expressed as a percentage. Income yield is obtained by dividing the current dollar income by the current market price for the security. Net yield or yield to maturity or call is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity or call.

Yield Curve: A graphical representation of the yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.

Zero Coupon Security: A security that is issued at a discount and makes no periodic interest payments. The rate of return consists of an accretion of the principal and is payable at par upon maturity.