City of Marysville
Investment Policy
Adopted: July 6, 2021

PURPOSE

It shall be the policy and intent of the City of Marysville ('City') to establish overall guidelines for the management and investment of the City of Marysville's ("City") public funds. Though no longer required by the California Government Code, this policy should be updated annually in order to maintain currency with legal and City requirements.

POLICY

It is the policy of the City to invest public funds in such a way as to achieve the highest investment return possible consistent with maximum security of City funds, while meeting the daily cash flow demands of the City. All investments must conform to pertinent state and local statues governing the investment of public funds.

DEFINITIONS OF TERMS

This Policy applies to all funds, entities and investments activities under the purview of the City's Finance Director as accounted for in the City's Annual Financial Report, including but not limited to the following unless specifically exempted by statue or ordinance:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Enterprise Funds
- Trust and Agency Funds
- Any new fund created by the City Council unless specifically exempted.

EXCEPTIONS

Two exceptions exist regarding the investment of bond reserve funds and grant funds. Acceptable investments for bond reserve funds are specified in the bond documents and may not necessarily be the same as those listed later in this document (e.g., Guaranteed Investment Contract).

Grant funds will be invested according to the statutory provisions applicable to the investment of the grant's funds or the grant itself, as applicable.

POOLING OF FUNDS

With the exception of cash in restricted and special funds, the City will consolidate cash balances from all funds to the extent practicable in order to maximize investment earnings and minimize fees.

RESPONSIBILITIES AND PROCEDURES

PRUDENCE

"City Investment Officials" means the Finance Director, and, when required, the City Manager and any other Finance staff that the Finance Director authorizes in writing. City Investment Officials performing duties in furtherance of the investment program shall act as fiduciaries subject to the Prudent Investor Standard which shall be applied in the context of managing an overall portfolio. The overall investment program shall be designed and managed with a degree of professionalism worthy of the public trust.

> Prudent Investor Standard: *Investments shall be made with care, skill, prudence, and diligence under circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the City, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitation of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.*

City Investments Officials, acting in accordance with this Policy and written procedures governing the City's investment program and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided that deviation from expectations is reported in a timely fashion as required by this Policy and the City's investment program procedures and appropriate action is taken to control adverse developments.

OBJECTIVES

The primary objectives, in order of priority, of the City's investment program are:

SAFETY

Safely of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio, whether from institutional default, broker/dealer default or erosion of market value of securities. To attain this objective, the City will diversity its investments by investing funds among a variety of securities offering independent returns and financial institutions. In particular, the City shall seek to preserve principal by mitigating credit risk and market or interest risk.

CREDIT RISK

Credit risk, defined as the risk of loss due to the failure of the security issuer or backer, will be mitigated by:

- Limiting investments to the safest types of securities;
- Prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business;
- Diversifying the investment portfolio by sector and issuer, so that the failure of any one issuer or backer will not place an undue financial burden on the City; and
- Monitoring the investment portfolio on a regular basis to anticipate and respond appropriately to a significant reduction of credit worthiness of any of the depositories.

MARKET OR INTEREST RATE RISK

The City will minimize the risk that the market value of portfolio securities will fall due to changes in general interest rates, by:

- Structuring the City's portfolio so that securities mature to meet the City's cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to their maturation to meet those specific needs; and
- Occasionally restructuring the portfolio to minimize the loss of market value and/or maximize cash flows subject to the constraints described in this Policy; and
- Investing operating funds in shorter-term securities.

LIQUIDITY

The City's investment portfolio will remain sufficiently liquid to meet all cash flows requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature at the same time as cash is needed to meet anticipated demands (static liquidity). Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). The specific percentage mix of different investment instruments and maturities is described in the Authorized Investments section of this Policy.

YIELD OR RETURN ON INVESTMENT

The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into consideration the investment risk constraints and liquidity needs. Yield on the City's investment portfolio is of secondary importance compared to the safely and liquidity objectives described above. Investments are limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Nevertheless, investment performance shall be continually monitored and evaluated by the Finance Director by comparison with other investment portfolio benchmark yields.

STANDARDS OF CARE

DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived as follows:

A. Responsibilities of the Finance Department

The Finance Department is charged with responsibility for maintaining custody of all public funds and securities belonging to or under the control of the City, and for the deposit and investment of those funds in accordance with principals of sound treasury management and in accordance with applicable laws and ordinances.

B. Responsibilities of the Finance Director

The Finance Director is appointed by the City Manager and is subject to his or her direction and supervision. The Finance Director is charged with responsibility for the conduct of all Finance Department functions, including the custody and investment of City funds and the development of procedures to implement this Policy. The Finance Director is further responsible for the duties and power imposed by the general laws of the State of California upon City Treasures, City Assessors and City Tax Collectors, except to the extent such duties have been delegated or assigned by the City to a County Officer and, with respect to the duties and powers of City Treasurers, only to the extent such duties and powers have been delegated to the Finance Director.

Under the oversight of the Finance Director, responsibility for the certain aspects of the investment program may be delegated to the Finance Department staff, who shall act in accordance with established written procedures and internal controls consistent with the Policy. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls in accordance with this Policy.

The Finance Director may delegate a day-to-day placement of investments to a registered investment advisor. The investment advisor shall make all investment decisions and transactions in strict accordance with State law and this Policy. The Finance Director shall establish a system of written internal controls to regulate the City's investments activities, including the activities of the investment advisor and any subordinate officials acting on behalf of the City.

C. Responsibilities of the City Manager

The City Manager is responsible for directing and supervising the Finance Director. He or she is responsible further to keep the City Council fully advised as to the financial condition of the City. The City Manager shall assume the duties of the Finance Director whenever there is no person appointed to serve as Finance Director or as Acting or Interim Finance Director.

D. Responsibilities of the City Council

The City Council shall consider and adopt a written Investment Policy. As provided in that

Policy, the Council shall receive and review quarterly investment reports.

INVESTMENT PROCEDURES

The Finance Director shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No City Investment Official may engage in investment transaction on behalf of the City except as provided under the terms of this Policy and the written procedures established by the Finance Director.

ETHICS AND CONFLICTS OF INTEREST

City Investment Officials involved in the investment process shall refrain from personal business activity that could conflict with prior execution of investments subject to this Policy or which could impair their ability to make impartial investment decisions. Investment Officials and employees will disclose to the City Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they will further disclose any large personal financial/investment positions that could be related to the performance of the City. The City Manager will notify the City Attorney. Additionally, City Investment Officers shall comply with the conflict of interest requirements under state law and the disclosure requirements of the Political Reform Act.

SAFEKEEPING AND CUSTODY

All securities owned by the City shall be held in safekeeping by the City's custodial bank or by a third-party bank trust department, acting as agent for the City under the terms of a custody agreement or master repurchase agreement. All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis through the City's safekeeping agent.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City will conduct investment transactions with authorized financial dealers and institutions. All Financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Finance Director with the following:

- Proof of National Association of Security Dealers certification
- Proof of state registration
- Audited financial statements
- Information concerning the existence of any pending legal action against the firm or the individual broker as well as an understanding of the security markets that they service
- Certification of having read the City's investment policy and depository contracts

The Finance Director will conduct an annual review of the financial condition and registrations of qualified financial institutions and security broker/dealers.

After a review of the financial statement and all other relevant information, the City will determine whether a service agreement should be executed with the institution based on the standards outlined in this Policy. The City requires that an agreement for services be executed prior to entrusting its funds to any dealer or financial institution.

If the City utilizes an investment advisor to conduct investment transactions on the City's behalf, the investment advisor may use its own list of approved broker/dealers and financial institutions for investment purposes. The investment advisor's approved list must be made available to the City upon request.

The Finance Director shall annually send a copy of the current Policy to all Financial Institutions and broker/dealers, which are approved to execute investment transactions with the City. Confirmation of receipt of this policy shall be considered evidence that the Financial Institution and broker/dealer understands the City's Policy and intends to sell the City only appropriate investments authorized by this Policy.

DELIVERY VS. PAYMENT

All investment transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus payment (DVP) basis. Investments will be held in safekeeping by a third-party custodian and evidenced by safekeeping receipts. The custodian will be competitively selected by the Finance Director and will act under the terms of a custody agreement.

AUTHORIZED INVESTMENTS

PERMITTED INVESTMENT TYPES

All investments shall conform to Sections 53600 et seq. of the California Government Code and as described within the Policy. Within the context of these limitations, the following investments are authorized:

- United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no maximum portfolio limit. The term, or remaining term, to maturity shall not exceed five years.
- Federal Agency or United States government sponsored enterprise 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. There is no maximum portfolio limit. The term, or remaining term, to maturity shall not exceed five years.
- U.S. Instrumentalities, United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter- American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in the category of 'AA; its equivalent, or better by a nationally recognized statistical rating organization (NRSRO) and shall not exceed 30 percent of the City's moneys that may be invested pursuant to this section.
- Registered California State Warrants or registered treasury notes or bonds of any of the 50 states in the United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of any of the 50 states. Securities eligible for investment under this subdivision shall be rated in a category of "A", its equivalent, or better by a NRSRO. The term, or remaining term, to maturity shall not exceed five years.
- Bonds, notes, warrants, or other evidence of indebtedness of a local agency within the State of California, including bonds payable solely out of the revenues from a revenue- producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. Securities eligible for investment under this subdivision shall be rated in a category of "A", its equivalent, or better by a NRSRO. The term, or remaining term, to maturity shall not exceed five years.
- Bankers Acceptances (BAs), otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.

o The maximum maturity may not exceed 180 days.

o No more than 40 percent of the City’s portfolio may be invested in bankers’ acceptances; and

o Rated in a category of “A-1”, it equivalent, or better by a NRSRO.

- Commercial Paper (CP) of “prime” quality of the highest ranking or of the highest letter and number rating as provided by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):

1. Is organized and operating within the United States as a general corporation with total assets >$500 million with other debt rated in a rating category of “A”, its equivalent, or better by a NRSRO, or
2. Is organized within the United States as a special purpose corporation, trust or limited liability company with program-wide credit enhancements and its commercial paper is rated in a rating category of “A-1”, its equivalent, or higher by a NRSRO.

The maximum maturity will be 270 days or less. No more that 25 percent of the City’s funds will be invested in commercial paper. The City may purchase no more than 10 percent of the outstanding commercial paper of any singe corporate issue.

- Negotiable Certificates of Deposit (CDs) issued by a nationally or state-charted bank, a savings association or a federal credit union, or by a state-licensed branch of a foreign bank. Negotiable certificates of deposit eligible for investment under this subdivision shall be rated in a rating category of “A”, its equivalents or better for long term certificates, or rated in a rating category of “A-1”, its equivalent or better for short term certificates by a NRSRO. Purchases of negotiable certificates of deposit may not exceed 30 percent of the City’s portfolio. The term, or remaining term, to maturity shall not exceed five years.
- Local Agency California Investment Fund (LAIF), the State of California managed investment pool may be used up to the maximum permitted by California law.
- Time Deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. No more than 5 percent of the investment portfolio may be invested in this investment type. A maturity limitation of two years is applicable.
- Medium term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state, an operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of “A”, its equivalent, or better by a NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and may not exceed 30 percent of the City’s portfolio.
- Money Market Funds invested in U.S. Government securities are permitted under this policy and under the California Government Code Section 53601. In order to be eligible for investment under this section, an investment objective of such a fund must be the maintenance for a price per share of $1.00. The following criteria must also be met:
  - The fund shall have a minimum of $500 million in total portfolio value.
  - The fund is registered with the Securities and Exchange Commission (SEC) and is rated AAA by S&P or Aaa by Moody's.
  - The fund shall have retained an advisor which is registered with the SEC, or which is exempt from such registration.
  - No more than 10 percent of the portfolio shall be invested in any one mutual fund.
  - No more than 20 percent of the portfolio shall be invested in money market mutual funds.
- Moneys held by a trustee or fiscal agent and pledged to the payment of security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other

agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

- Any mortgage pass-through security, collateralized mortgage obligation, mortgage- backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond . Securities eligible for investment under this subdivision shall be rated in a rating category of "AA", its equivalent, or better by a NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision may not exceed 20 percent of the City's surplus money that may be invested pursuant to this section.
- Local Government Investment Pools (LGIP's) shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.70 that invests in the securities and obligations authorized in Section 56301 subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers' authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment advisor that meets all of the following criteria:
    - The advisor is registered or exempt from registration with the Securities and Exchange Commission; and
    - The advisor has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive; and
    - The advisor has assets under management in excess of five hundred million dollars ($500,000,000).
- Yuba County Treasurer's Investment Pool - No more than 25 percent of the portfolio shall be invested with the Yuba County Treasurer's Investment Pool.
- Stocks: Any stock received as a gift, through bankruptcies or as payment in lieu of monies due the City shall be sold immediately upon receipt, unless received through a gift or bequest with restrictions on its sale. Sale proceeds will be distributed to the appropriate program fund. If the stock has no written value or if the cost of selling it exceeds the market value, the stock will be written off and monitored periodically to be sold when a break-even market value can be realized.

INELIGIBLE INVESTMENTS

Ineligible Investments are those that are not described herein, including but not limited to, common stock, inverse floaters, range notes, mortgage-derived interest-only strips, derivatives securities, or any security that could result in zero interest accrual.

INVESTMENT PARAMETERS

DIVERSIFICATION

The City will diversify its investment by security type, and institution with the exception of U.S. Treasury securities, U.S. Agency Obligations and authorized pools (e.g.: LAIF and Yuba County), no more than 5 percent of the City's total investment portfolio will be invested in a single issuer. The diversification requirements of the portfolio apply at the time of purchase.

MAXIMUM MATURITIES

To the extent possible, the City will strive to match its investments with anticipated cash flow requirements. Where this policy does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security that - at the time of the investment - has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or an a part of an investment program approved by the legislative body no less than three months prior to the investment. The average maturity of the investment portfolio generally will not exceed two years.

Bond reserve funds established by the issuance of bonds may be invested in securities exceeding five years if the maturity of such investments are made to coincide with the expected use of the funds and the appropriate bond indenture permits such investments.

INTERNAL CONTROLS

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the City's assets are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that those objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits to be derived and that the valuation of costs and benefits requires estimates and judgments by management. Internal control procedures shall address:

- Separation of duties
- Control of collusion
- Custodial safekeeping
- Avoidance of physical delivery of securities
- Written confirmation of transfers for investments and wire transfers
- Written procedures for placing investment transactions
- Delegation of authority to investment officials

MARKET YIELD (BENCHMARK)

The City's investment portfolio is managed primarily on a "hold-to-maturity" strategy. Given this strategy, the basis used by the Finance Director to determine whether market yields are being achieved shall be to identify a comparable benchmark to the weighted average maturity of the investment portfolio.

INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of the pool/fund is required prior to investing. At a minimum that review should consist of the following:

- A determination of the eligible investment securities; and
- A determination of the allowable size of deposits and withdrawals; and
- The frequency with which deposits and withdrawals can be made; and
- The process and timeline for withdrawals; and
- A review of the fee schedule.

The Finance Director shall monitor the pool to ensure he/she is aware of any changes made to the pool/fund in the above categories.

REVIEW OF INVESTMENT PORTFOLIO

The securities held by the City must be in compliance with Section 7.0 Authorized and Suitable Investments at the time of purchase. Because some securities may not comply with Section· 7.0 Authorized and Suitable Investments subsequent to the date of purchase, the Investment Officer shall at least quarterly review the portfolio to identify those securities that do not comply. The Investment Officer shall establish procedures to report to the Board major and critical incidences of noncompliance identified through the review of the portfolio, should one exist.

REPORTING

METHODS

The Finance Director shall submit a quarterly investment report containing detailed information on all securities and investments of the City to the City Council and the City Manager within 60 days following the end of the quarter covered by the report. The quarterly investment report will include the following:

- The classification of the investment, the percentage of the total portfolio which each type of investment represents, issuer, date of maturity, par and dollar amount invested on all securities and investments;
- Current market value;
- Cash management projection: Statement denoting the ability of the City to meet its expected obligations over the next six months;
- Statement of compliance with the Policy: Reasons for and number of violations or exceptions to the investment policy during the quarter being reported on, as well as prior violations or exceptions which have not yet been corrected;
- Weighted average maturity of the investment portfolio;
- Trend of average portfolio maturity;
- Maturity aging by type of investment;
- Trend of the quarterly earned interest yield on investments;
- Unrealized gain or loss resulting from appreciation or depreciation in the market value of securities;
- Aggregate commitments to purchase securities or make other payments to dealers in a manner to permit adequate cash need forecasting;
- A brief description of executed reverse repos and the associated interest cost and interest earnings from the transactions;
- A brief description of executed restructuring transactions. Number and dollar volume of trades executed for the sole purpose of restructuring the portfolio and analysis of benefit derived from those trades;
- A comparison of the weighted average maturity and yield of the portfolio to that of the selected benchmark for the portfolio.

The City's Quarterly Investment Reports to the City Council will be posted on the City's internet site (absent any unforeseen technological issues).

MARKING TO MARKET

The market value of the portfolio will be calculated quarterly, with a statement of market value issued. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommend Practice on "Mark-To-Market Practices for State and Local Government Investment Portfolios and Investment Pools".

POLICY CONSIDERATIONS

POLICY EXCEPTIONS

While this Policy prescribes various maximums, minimums and other relatively arbitrary numerical limits, it is intended primarily to be a management tool. When the Finance Director determines that an exception to one of the Policy's numerical limits is in the best interest of the City, and is otherwise consistent with the Policy, such exception is permitted so long as it is consistent with applicable City, State and Federal laws. Whenever an exception or violation of this Policy is made, that fact shall be reported by the Finance Director to the City Manager and the City Council within one business day of its discovery. Major exceptions will be reported immediately.

All exceptions to the Policy and the appropriate explanation or justification for the exception shall be included in the Quarterly Investment Report.

Sudden large fluctuations in portfolio assets can cause technical exceptions to the various percentage limits of the Policy which should not be interpreted as "reportable exceptions". Provided that the portfolio make-up can be readjusted to Policy limits within one working day of a significant increase or decrease in portfolio assets, such temporary percentage exceptions need not be reported as violations or exceptions to this Policy.

LEGISLATIVE CHANGES

Further restrictions on allowable maturities, investment type or percentage allocations imposed by a State of California legislative action, will be incorporated into the City's Investment Policy and supersede any and all previous applicable language.

INVESTMENT POLICY REVIEW/ADOPTION

The Policy shall be adopted by resolution of the City Council on an annual basis. This Policy shall be reviewed annually to ensure its consistency with respect to the overall objectives of safety, liquidity and yield, and its relevance to current laws and financial trends. An annual Statement of Investment Policy including any proposed amendments to the Policy shall be prepared by the Finance Director to present to the City Council for consideration and approval.

GLOSSARY OF TERMS

Accretion: Adjustment of the difference between the price of a bond bought at an original discount and the par value of the bond.

Accrued Interest: Interest earned by not yet received.

Agencies: Federal agency securities and/or Government-sponsored enterprises (GSEs), also known as U.S. Government instrumentalities. Securities issued by Government National Mortgage Association (GNMA) are considered true agency securities, backed by the full faith and credit of the U.S. Government. GSEs are financial intermediaries established by the federal government to fund loans to certain groups of borrowers, for example homeowners, farmers and students and are privately owned corporations with a public purpose. The most common GSEs are Federal Farm Credit System Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Association, and Federal National Mortgage Association.

Amortization: Accounting procedure that gradually reduces the cost value of a limited life or intangible asset through periodic charges to income. For fixed assets, the term used is "depreciation". It is common practice to amortize any premium over par value paid in the purchase of preferred stock or bond investments.

Annual Financial Report: The official annual financial report for the City. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

Appreciation: Increase in the value of an asset such as a stock bond, commodity or real estate.

Asked Price: The price a broker/dealer offers to sell securities.

Bankers' Acceptance (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. This money market instrument is used to finance international trade.

Basis Point: One-hundredth of one percent (i.e., 0.01%).

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 investment.

Bid Price: The price a broker/dealer offers to purchase securities.

Bond: A financial obligation for which the issuers promise to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

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

Broker: A broker acts as an intermediary between a buyer and seller for a commission and does not trade for his/her own risk and account or inventory.

California Local Agency Obligations: Bonds that are issued by a California county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

Callable Securities: A security that can be redeemed by the issuer before the scheduled maturity date.

Cash Flow: An analysis of all changes that affect the cash account during a specified period.

Certificate Of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. 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: Short-term, unsecured, negotiable promissory notes of corporations.

Conduit Financing: A financing in which a governmental agency issues debt and the proceeds of the issue are loaned to a nongovernmental borrower who then applies the proceeds for a project financing or (if permitted by federal tax laws for a qualified 501(c) (3) bond) for working capital purposes.

Corporate Note: Debt instrument issued by a private corporation.

Coupon: The annual rate at which a bond pays interest.

Credit Analysis: An analysis of the economic and financial conditions to determine creditworthiness or the ability to meet debt obligations.

Credit Risk: The risk that an obligation will not be paid, and a loss will result due to a failure of the issuer of a security.

Current Yield: The annual interest on an investment divided by the current market value. Since the calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

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

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

Debentures: A bond secured only by the general credit of the issuers.

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 documents.

Delivery Versus Payment (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

Derivative: A financial instrument that is based on, or derived from, some underlying asset, reference date, or index.

Direct Issuer: Issuer markets its own paper directly to the investor without u e of an intermediary.

Discount: The difference between the cost of a security and its value at maturity when quoted at lower than face value.

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

Duration: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. Duration measures the price sensitivity of a bond to changes in interest rates.

Face Value: The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

Fair Value: The amount at which a security could be exchanged between willing parties, other than in a forced or liquidation sale. If a market price is available, the fair value is equal to the market value.

Fannie Mae: Trade name for the Federal National Mortgage Association (FNMA), a U.S. Government sponsored enterprise.

Federal Deposit Insurance Corporation (FDIC): A federal agency that provides insurance on bank deposits, guaranteeing deposits to a set limit per account, currently $250,000.

Federal Farm Credit Bank (FFCB): Government-sponsored enterprise that consolidates the financing activities of the Federal Land Banks, the Federal Intermediate Credit Banks and the Banks for Cooperatives. Its securities do not carry direct U.S. government guarantees.

Federal Funds Rate: The rate of interest at which Federal funds are traded. This rate is considered to be the most sensitive indicator of the direction of interest rates, as it is currently pegged by the Federal Reserve through open-market operations.

Federal Home Loan Bank (FHLB): Government sponsored enterprise (currently made up of 12 regional banks) that regulates and lends funds and provides correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. Although the banks operate under federal charter with government supervision, the securities are not guaranteed by the U.S. Government.

Federal Home Loan Mortgage Corporation (FHLMC): Government sponsored enterprise that helps maintain the availability of mortgage credit for residential housing. FHLMC finances these operations by marketing guaranteed mortgage certificates and mortgage participation certificates. Its discount notes and bonds do not carry direct U.S. government guarantees.

Federal National Mortgage Association (FNMA): Government sponsored enterprise that is the largest single provider of residential mortgage funds in the United States. FNMA 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 securities do not carry direct U.S. Government guarantees.

Federal Open Market Committee (FOMC): A committee of the Federal Reserve Board, which establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

Federal Reserve System: The central bank of the U.S. which consists of a seven-member Board of Governors, 12 regional banks and about 5,700 commercial banks that are members.

Fed Wire: A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

Freddie Mac: Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. government sponsored enterprise.

Ginnie Mae: Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

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

Government Finance Officers' Association (GFOA): GFOA is the professional association of state/provincial and local finance officers in the United States and Canada and has served the public finance profession since 1906.

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

Inactive Deposits: Funds not immediately needed for disbursement.

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

Interest Rate Risk: The risk of gain or loss in market values of securities due to changes in interest-rate levels. For example, rising interest rates will cause the market value of portfolio securities to decline.

Investment Agreements: A contract providing for the lending of issuer funds to a financial institution which agrees to repay the funds with interest under predetermined specifications.

Investment Portfolio: A collection of securities held by a bank, individual, institution or government agency for investment purposes.

Liquidity: A liquid asset is one that can be conve1ied easily and rapidly into cash with minimum risk of principal.

Local Agency Bonds: These bonds are issued by a county, city, city and county, including a chartered city of county, school district, community college district, public district

Local Agency Investment Fund (LAIF): An investment pool sponsored by the State of California and administered/managed by the State Treasurer. Local government units, with consent of the governing body of that agency, may voluntarily deposit surplus funds for the purpose of investment. Interest earned is distributed by the State Controller to the participating governmental agencies on a quarterly basis.

Local Agency Investment Pool: A pooled investment vehicle sponsored by a local agency or a group of local agencies for use by other local agencies.

Mark To Market: Current value of securities at today's market price.

Market Risk: The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates. Systematic risk of a security that is common to all securities of the same general class (stocks, bonds, notes, money market instruments) and cannot be eliminated by diversification (which may be used to eliminate non-systematic risk).

Market Value: The price at which a security is currently being sold in the market. See Fair Value.

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase agreements 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 that the principal or stated value of a debt instrument becomes due and payable.

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

Modified Duration: The percent change in price for a 100-basis point change in yields. This is a measure of a portfolio’s or security's exposure to market risk.

Money Market: The market in which short term debt instruments (Treasury Bills, Discount Notes, Commercial Paper, Banker's Acceptances and Negotiable Certificates of Deposit) are issued and traded.

Municipal Bonds: Debt obligations issued by state and local governments and their agencies including school districts, state universities, sewer districts, municipally owned utilities and authorities running bridges, airports and other transportation facilities.

Mutual Fund: An entity that pools money and can invest in a variety of securities which are specifically defined in the fund's prospectus.

Negotiable Certificate Of Deposit: A large denomination certificate of deposit which can be sold in the open market prior to maturity.

New Issue: Term used when a security is originally "brought" to market.

Note: A written promise to pay a specified amount to a certain entity on demand or on a specified date.

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.

Par Value: The amount of principal which must be paid at maturity. Also referred to as the face amount of a bond. See Face Value.

Perfected Delivery: Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

Portfolio: The collection of securities held by an individual or institution.

Premium: The difference between the par value of a bond and the cost of the bond, when the cost is above par.

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. These dealers are authorized to buy and sell government securities in direct dealing with the Federal Reserve Bank of New York in its execution of market operations to carry out U.S. monetary policy. Such dealers must be qualified in terms of reputation, capacity, and adequacy of staff and facilities.

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 Securities and Exchange Commission 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 Investor Standard: A standard of conduct for fiduciaries. Investments shall be made with 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 probable safety of their capital as well as the probable income to be derived.

Public Deposits: A bank that is qualified under California law to accept a deposit of public funds.

Purchase Date: The date in which a security is purchased for settlement on that or a later date. Also known as the "trade date".

Rate of Return: 1) The yield which can be attained on a security based on its purchase price or its current market price. 2) Income earned on an investment, expressed as a percentage of the cost of the investment.

Realized Gain (Or Loss): Gain or loss resulting from the sale or disposal of a security.

Regional Dealer: A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

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

Reverse Repurchase Agreement (Reverse REPO): The opposite of a repurchase agreement. A reverse repo is a transaction in which the City sells securities to counterparty (e.g., investment dealer) and agrees to repurchase the securities from the counterparty at a fixed date. The counterparty in effect lends the seller (e.g., the City) money for the period of the agreement with terms of the agreement structured to compensate the buyer.

Risk: Degree of uncertainty of return on an asset.

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

Safekeeping: A service which banks offer to clients for a fee, where physical securities are held in the bank's vault for protection and book-entry securities are on record with the Federal Reserve Bank or Depository Trust Company in the bank's name for the benefit of the client As agent for the client, the safekeeping bank settles securities transactions, collects coupon payments, and redeems securities at maturity or on call date, if called.

Sallie Mae: Trade name for the Student Loan Market Association (SLMA), a U.S. government sponsored enterprise.

Securities and Exchange Commission (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Sec Rule 15C3-1: See Uniform Net Capital Rule.

Secondary Market: A market for the repurchase and resale of outstanding issues following the initial distribution.

Securities: Investment instruments such as notes, bonds, stocks, money market instruments and other instruments of indebtedness or equity.

Settlement Date: The date on which a trade is cleared by delivery of securities against funds.

Spread: The difference between two figures or percentages. It may be the difference between the bid (price at which a prospective buyer offers to pay) and asked (price at which an owner Offers to sell) prices of a quote, or between the amount paid when bought and the amount received when sold.

State Obligations: Registered Treasury notes of bonds of the 50 United States, 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 50 United States.

Structured Note: A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include "inverse floating rate" notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising and "dual index floaters", which pay interest based on the relationship between two other interest rates, for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

Student Loan Market Association (SLMA): Government-sponsored enterprise that purchases student loans from originating financial institutions and provides financing to state student loan agencies. It provides a national seconda1y market for federally sponsored student loans and credit to participants in the post-secondary education lending sector.

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

Time Deposit: A deposit with a California bank or savings and loan association for a specific amount and with a specific maturity date and interest rate. Deposits of up to $100,000 are insured by FDIC. Deposits over $100,000 are collateralized above the insurance with either government securities (at 110% of par value), first trust deeds (at 150% of par value), or letters of credit (at 105% of par value).

Total Rate Of Return: A measure of a portfolio's performance over time. It is the internal rate of return which equates the beginning value of the portfolio with the ending value and includes interest earnings and realized and unrealized gains and losses on the portfolio. For bonds held to maturity, total return is the yield to maturity.

Treasury Bills: U.S. Treasury Bills which are short-term, direct obligations .of the U.S. Government issued with original maturities of 13, weeks, 26 weeks and 52 weeks; sold in minimum amounts of $10,000 in multiples of $5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

Treasury Notes: Intermediate-term coupon-bearing securities with initial maturities of one year to ten years.

Treasury Bond: Long-term coupon-bearing securities with initial maturities of ten years or longer.

Trustee or Trust Company or Trust Department of a Bank: A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

Underwriter: A dealer which 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. Government Agency Securities: Securities issued by U.S. government agencies, most of which are secured only by the credit worthiness of the particular agency. See Agencies.

U.S. Treasury Obligations: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are the benchmark for interest rates on all other securities in the U.S. The Treasury issues both discounted securities and fixed coupon notes and bonds. The income from Treasury securities is exempt from state and local, but not federal, taxes.

Unrealized Gain (Or Loss): Gain or loss that has not become actual. It becomes a realized gain (or loss) when the security in which there is a gain or loss is actually sold. See Realized Gain (Or Loss).

Volatility: Characteristic of a security, commodity or market to rise or fall sharply in price within a short-term period.

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

When Issued (WI): Short form of "when, as, and if issued." WI refers to a transaction made conditionally because a security, although authorized, has not yet been issued.

Yield: The annual rate of return on an investment expressed as a percentage of the investment. See Current Yield; Yield To Maturity.

Yield Curve: Graph showing the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

Yield to Maturity: Concept used to determine the rate of return if an investment is held to maturity. It takes into account purchase price, redemption value, time to maturity, coupon yield, and the time between interest payments. It is the rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.