

## REPORT TO CITY COUNCIL

**DATE:** JULY 8, 2020

**TO:** HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

**FROM:** NATHAN HAMBURGER, CITY MANAGER

**BY:** CHRISTY PINUELAS, DIRECTOR OF FINANCE

**SUBJECT:** RESOLUTION NO. 2020-1949 ADOPTING THE ANNUAL INVESTMENT POLICY FOR FISCAL YEAR 2020-21 AND DELEGATING AUTHORITY TO THE CITY TREASURER TO INVEST AND REINVEST CITY FUNDS

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State of California Government Code 53646 requires the City's investment policy be approved annually. Staff has reviewed the policy and no recommendations for changes are being made at this time. The Finance sub-committee reviewed the policy at their July meeting.

Furthermore, Government Code Section 53607 states that the City Council may annually delegate to the City Treasurer the authority to invest and reinvest City funds.

### **RECOMMENDATION**

Staff recommends the City Council adopt Resolution No. 20-1949 adopting the annual investment policy for fiscal year 2020-21 and delegating authority to the City Treasurer to invest and reinvest City funds.

Attachment: Resolution 20-1949

**RESOLUTION NO. 20-1949**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF AGOURA HILLS, CALIFORNIA, ADOPTING THE ANNUAL INVESTMENT POLICY FOR FISCAL YEAR 2020-21 AND DELEGATING AUTHORITY TO THE CITY TREASURER TO INVEST AND REINVEST CITY FUNDS**

WHEREAS, on June 26, 2019, the City Council reviewed and adopted the City of Agoura Hill's annual Investment Policy; and

WHEREAS, a staff report has been presented to the City Council requesting adoption of the annual Investment Policy; and

WHEREAS, the Investment Policy describes the investment of City funds in compliance with the Municipal Code and state law, and, therefore, the Investment Policy is to be hereby submitted to an oversight committee in compliance with state law;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF AGOURA HILLS HEREBY FINDS, RESOLVES, AND ORDERS AS FOLLOWS:

SECTION 1. The annual Investment Policy, attached hereto as "Exhibit A," has been reviewed in a public meeting and is hereby adopted.

SECTION 2. The City Council hereby delegates the City Treasurer the authority to invest and reinvest city funds for a twelve-month period, as per State of California Government Code Section 53607.

SECTION 3. The Investment Policy adopted June 26, 2019, is hereby rescinded.

PASSED, APPROVED, AND ADOPTED this 8th day of July, 2020, by the following vote to wit:

AYES:            (  
NOES:            (  
ABSENT:         (  
ABSTAIN         (  
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Illece Buckley Weber, Mayor

ATTEST:

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Kimberly M. Rodrigues, City Clerk



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**CITY OF AGOURA HILLS  
STATEMENT OF INVESTMENT POLICY**

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**2020-2021**

**I. POLICY**

The purpose of this statement is to provide guidelines for the investment of the City's funds and is based upon State law and prudent money management. This policy is designed according to the specific needs of the City of Agoura Hills. The ultimate goal is to enhance the economic status of the City while ensuring the safety of funds. The authority governing investment of public funds is set forth in the Government Code, Sections 53601 et seq.

**II. SCOPE**

This investment policy applies to all investment activities and financial assets of the City of Agoura Hills. The funds are accounted for and incorporated in the City of Agoura Hills Comprehensive Annual Financial Report (CAFR) and include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, and Trust Funds.

**III. PRUDENCE**

The City holds to the "prudent investor standard" in that all investments placed shall be made with a degree of judgment and care, not for speculation, but considering the safety of the monies and acting as a fiduciary of the public trust. The prudent investor standard as set forth in Section 53600.3 of the Government Code is as follows. "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent 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." Related activities which comprise good cash management include cash projections, the expeditious collection of revenue, disbursement control and a cost effective banking relationship.

**IV. OBJECTIVE**

The City shall be guided by the following criteria in priority order when placing investments:

1. Safety: Safety is the primary duty and responsibility in order to protect, preserve and maintain the principal of the City's public funds, which are for the benefit of citizens of the community.
2. Liquidity: The investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.
3. Return: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs.

It is intended that the scope of this policy cover the investment of surplus (i.e., monies not required for the immediate needs of the City) of all monies held under the direct authority of the City.

Proceeds of debt issuance shall be invested in accordance with the City's general investment philosophy as set forth in this policy; however, pursuant to Government Code Sections 5922(d) and 53601(m), such proceeds are invested in accordance with permitted investment provisions of their specific bond indentures.

## **V. DELEGATION OF AUTHORITY**

Pursuant to Government Code Section 53607, the City Council of the City of Agoura Hills annually delegates the authority to invest or reinvest funds of the City, or to sell or exchange securities so purchased, to the City Treasurer who shall be responsible for all investment transactions undertaken, shall exercise prudence in the selection of subordinate investment officers, and shall establish a system of controls to regulate the activities of subordinate investment officers.

Subject to the foregoing paragraph, the City Treasurer may authorize the Director of Finance to act as the City's Investment Officer in performing the treasury functions and duties under this policy. When acting as the City's Investment Officer as provided in this paragraph, the Director of Finance shall be subject to the direction and supervision of the City Treasurer, shall coordinate with the City Treasurer on investments, and shall discuss changes in the composition of the City's investment portfolio with the City Treasurer prior to purchasing these investments.

Wire Transfer: Any transfers to/from LAIF representing deposits or withdrawals effectuating an investment decision by the City Treasurer shall be completed by Finance Department staff and authorized by the City Manager.

**VI. ETHICS AND CONFLICTS OF INTEREST**

Investment officials will refrain from personal business activity that could conflict with proper execution and management of the policy and the investment program, or which could impair their ability to make impartial decisions. Investment officials must file an annual Statement of Economic Interest Form 700 with the city clerk’s office prior to April 1 of each year or when material interest in financial institutions or personal investment positions require it.

**VII. AUTHORIZED FINANCIAL DEALERS AND INSTIUTIONS**

The City does not use third party broker-dealer accounts for the custody of funds or securities. However, pursuant to Government Code Section 53601.5, the City shall purchase each authorized investment either (a) directly from the issuer or (b) from an institution licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code,(c) from a member of a federally regulated securities exchange, (d) from a national or state-chartered bank, (e) from a savings association or federal association (as defined by Section 5102 of the Financial Code), or (f) from a brokerage firm designated as a primary government dealer by the Federal Reserve bank.

**VIII. AUTHORIZED SUITABLE INVESTMENTS**

The following is a list of the investments authorized by the City of Agoura Hills and shall be maintained within the statutory limits imposed by the Government Code and, if more stringent, the limits set forth in the table below.

<b>Authorized Investment</b>	<b>Govt. Code</b>	<b>Max Percent</b>	<b>Max Maturity</b>	<b>Minimum Quality</b>	<b>Other Constraints</b>
Local Agency Investment Fund (LAIF)	16429.1 et seq.	As permitted by LAIF	N/A	N/A	N/A
U.S. Treasury Issues	53601 (b)	No Limit	5 years	None	Notes, bonds, bills
U.S. Agency Issues	53601 (f)	75% of portfolio  20% single issuer	5 years	None	Federal Agency or U.S. Government sponsored enterprise obligations, participations, or other instruments
Commercial Paper	53601 (h)	5% of portfolio	270 days	Prime	Must be of the highest ranking or the highest letter and number rating as provided for by a nationally recognized statistical rating organization. Must meet all of the following conditions:

Authorized Investment	Govt. Code	Max Percent	Max Maturity	Minimum Quality	Other Constraints
					<p>Entity must be; Organized and operating in United States as general corp. and have total assets in excess of five hundred million dollars (\$500,000,000) and have debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.</p> <p>Or</p> <p>Entity must be organized within the USA as a special purpose corporation, trust, or limited liability company and have programwide credit enhancements including, but not limited to overcollateralization, letters of credit, or a surety bond. And have commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.</p>
Negotiable Certificates of Deposit	53601 (i) et seq	30 % of portfolio  5% single issuer	5 years	A	<p>Issued by nationally or state chartered banks; savings or federal associations (as defined in Financial Code Section 5102); state or federal credit unions; or federally licensed or state licensed branches of foreign banks.</p> <p>Per 53638 deposits may not exceed bank shareholder equity; total net worth of depository savings or federal association; unimpaired capital and surplus of a credit union; unimpaired capital and surplus of industrial loan companies.</p>

Authorized Investment	Govt. Code	Max Percent	Max Maturity	Minimum Quality	Other Constraints
Medium Term Corporate Notes	53601(k)	5% of portfolio	5 years	A	Must be issued by corporation that is 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.
Bank Deposits Collateralized or FDIC Insured	53630 et seq	No limit	5 Years	Satisfactory rating from national bank rating service and from Community Reinvestment Act review per Government Code Section 53635.2.	Amounts up to \$250,000 per institution are insured by the FDIC Amounts over the insurance limit must be placed with financial institutions participating in the California Local Agency Security Program, providing for collateralization of public funds, and pursuant to a contract with the depository meeting the requirements of Government Code Section 53649. Per 53638 deposits may not exceed bank shareholder equity; total net worth of depository savings or federal association; unimpaired capital and surplus of a credit union; unimpaired capital and surplus of industrial loan companies. Treasurer may waive collateral for the portion of any deposits insured pursuant to federal law. The use of private sector entities authorized by Gov. Code 53601.8 or 53635.8 to assist in the placement of deposits are NOT permitted.
Money Market Funds	53601 (l)(2)	15% of portfolio	N/A	Fund must have the highest ranking by not less than 2 NRSRO's.	Retained an investment advisor registered or exempt from registration with the SEC with 5 years' experience managing money market

Authorized Investment	Govt. Code	Max Percent	Max Maturity	Minimum Quality	Other Constraints
					funds in excess of \$500 million.

**IX. REVIEW OF INVESTMENT PORTFOLIO**

The securities held by the City of Agoura Hills must be in compliance with section VIII, Authorized Suitable Investments at the time of purchase. Because some securities may not comply with Section VIII subsequent to the date of purchase, the Treasurer shall at least annually review the portfolio to identify those securities that do not comply.

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

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

**X. INVESTMENT POOLS / MUTUAL FUNDS**

Investment pools include LAIF and shares of beneficial interest issued by authorized diversified management companies (money market funds). A thorough investigation of any pool or fund is required prior to the City's investment and on a periodic basis while funds are invested. The investigation will include review of the following items: Eligible investments; Investment policy and/or investment objectives; interest calculation, distribution, and treatment of gains/losses; Schedule for receiving statements and portfolio listing; Fees.

**XI. COLLATERALIZATION**

- a. The City does not use Reverse Repurchase Agreements for the investment of funds.
- b. The City will only place in a Non-Negotiable Certificate of Deposit that amount which is covered by FDIC Insurance (per Government Code Section 53653) or fully collateralized (per Government Code Section 53630 et seq., including but not limited to Sections 53649, 53652, and 53656).

**XII. SAFEKEEPING AND CUSTODY – Code 53608**

- a. 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, provided that the City Treasurer (as the City Council's delegate for investment authority per Government Code Section 53607) exercises prudence in the selection of the manager, imposes suitable safeguards to prevent abuse in the exercise of discretion by the manager, and remains responsible for any investment decisions made by the manager. Such managers must be registered under the Investment Advisers Act of 1940.

- b. All U.S. Treasury Issues, Federal Agency Securities, Commercial Paper, and Medium Term Corporate Notes purchased shall be delivered to our safekeeping account at an independent third party custodian meeting the requirements of Government Code Section 53608 (which include a federal or state association (as defined by Section 5102 of the Financial Code), a trust company or a state or national bank located within the State of California, and the Federal Reserve Bank of San Francisco). Purchase is made on a delivery versus payment basis. Book entry is considered delivery. The City shall retain physical custody of all CD's. There is no safekeeping document for LAIF investments as it is not evidenced by physical or book entry securities.

### **XIII. DIVERSIFICATION**

No more than 5% of the total portfolio may be invested in securities of any single issuer, other than LAIF, bank deposits, money market funds, and the US Government, its agencies and enterprises, all as further specified in Section VIII.

### **XIV. MAXIMUM MATURITIES**

The City does not place investments with a maturity in excess of five years in accordance with Government Code, Section 53601.

### **XV. INTERNAL CONTROLS**

Subject to the direction and supervision of the City Treasurer, the Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the financial assets of the City of Agoura Hills are protected from loss, theft, fraud or misuse. Annually the City's independent auditor will conduct an independent review of investment records and verify the investments have been made in accordance with this policy.

Internal controls state that every transaction must be reviewed, authorized and documented. Transaction documentation will be maintained for audit purposes. The investments placed shall conform to the City's "Statement of Investment Policy."

## **XVI. PERFORMANCE STANDARDS**

Subject to the priority of investment objectives set forth in Section IV, this section sets forth the performance standards for the City's investment portfolio.

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

Specific objective: The City's investment strategy is passive with investments generally held to call or maturity. Given this strategy and policy objectives, the rate of return will be maintained on a consistent level representative of current market direction.

## **XVII. REPORTING**

The City Treasurer shall prepare a monthly Treasurer's Report meeting the requirements of Government Code Sections 53607 and 53646(b) (as modified by Section 53646(d)).

The Treasurer shall submit the monthly investment report to the City Manager and City Council which shall list each investment by investment category and include; (1) issuer, (2) purchase and maturity dates, (3) yield, (4) original cost, (5) par value, and (6) market value; provided, pursuant to Government Code Section 53646(e), for investments in LAIF or FDIC-insured accounts in a bank or savings and loan association, the Treasurer may provide the most recent statement(s) received by the City from these institutions in lieu of the foregoing monthly investment report.

The report shall include a statement denoting the ability of the City to meet its pool's expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available. The report shall also include a statement as to compliance with this investment policy or manner in which the portfolio is not in compliance.

So long as the City Council's annual delegation of investment authority to the City Treasurer pursuant to Government Code Section 53607 is effective, the City Treasurer shall make a monthly report of all investment transactions to the City Council.

## **XVIII. INVESTMENT POLICY ADOPTION**

The City of Agoura Hills investment policy will be adopted by resolution of the City of Agoura Hills Council. The policy will be reviewed annually by the City Council and any modifications made thereto must be approved by the City Council.

## **XIX. GLOSSARY**

**AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.

**ASKED:** The price at which securities are offered.

**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.

**BROKER:** A broker brings buyers and sellers together for a commission.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a Certificate. Large denomination CD's 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.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The official annual report of the (entity). It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

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

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

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

**DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value (e.g., U.S. Treasury Bills.)

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns.

**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.

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

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits, currently up to \$250,000 per depositor per insured bank.

**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 11 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 NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae):** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. Due to its federal charter, FNMA is considered a U.S. government-sponsored enterprise. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a publicly-traded stockholder-owned corporation that has also been under the conservatorship of the Federal Housing Finance Agency (FHFA) since September 6, 2008. 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. For some securities issued by FNMA, FNMA provides guarantees as to the timely payment of principal and interest.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae):** Mortgage-backed securities influencing the volume of affordable housing loans and that are guaranteed by GNMA. Security holder is protected by full faith and credit of the U.S. Government. Underlying mortgages for Ginnie Mae securities include those issued, insured, or guaranteed by the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), the U.S. Department of Agriculture's Rural Development (RD), and the U.S. Department

of Housing and Urban Development's Office of Public and Indian Housing (PIH). The term "pass throughs" is often used to describe Ginnie Maes.

**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. **LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes 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 due and payable.

**MONEY MARKET:** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

**NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION:** A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

**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.

**PORTFOLIO:** Collection of securities held by an investor.

**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 Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

**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 a reasonable income and preservation of capital. As to the City, the prudent investor standard is established by, and specifically described in, California Government Code Section 53600.3. See Section III of this investment policy.

**QUALIFIED PUBLIC DEPOSITORIES:** A financial institution meeting the requirements of Government Code Section 53635.2, which has placed with an authorized depository agent per Government Code Section 53657 for the benefit of the depositor eligible collateral having a value of not less than the amount required by Government Code Section 53652 (currently ranging from 105% to 150% of the deposit, depending upon type of collateral) and the depository agent of which has been approved by the Administrator of Local Agency Security designated by Government Code Section 53661 (currently, the Commissioner of Business Oversight) to hold collateral for public deposits.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

**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.

**TREASURY BILLS:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**TREASURY BONDS:** Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

**TREASURY NOTES:** Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

**YIELD:** The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** 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 of the bond.