REPORT TO CITY COUNCIL

DATE: AUGUST 23, 2023

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: NATHAN HAMBURGER, CITY MANAGER

BY: CHRISTY TRUELSEN, DIRECTOR OF FINANCE
BRENDA CHO, FINANCE MANAGER

SUBJECT: ADOPT RESOLUTION NO. 23-2044; ADOPTING THE UPDATED ANNUAL INVESTMENT POLICY FOR FISCAL YEAR 2023-24 AND DELEGATING AUTHORITY TO THE CITY TREASURER TO INVEST AND REINVEST CITY FUNDS, AND RESCINDING RESOLUTION NO. 23-2036

State of California Government Code Section 53646 requires the City's investment policy be approved annually. Though the City adopted an Investment Policy for Fiscal Year 2023-24 in June 2023, a new policy is being recommended to be adopted. With rising investment returns as a result of higher rates, and increased reserve levels, staff is considering diversifying the City's portfolio to optimize idle funds utilizing the investment advisory services of Chandler Asset Management (Chandler), a firm under contract with the City.

Staff and the City Finance Sub-committee have reviewed the policy and recommends the adoption of the new investment policy. The new policy has been updated to increase the authorized investment amounts to align with CA Government State Code, Section 53601 to provide greater flexibility. Other changes to the policy are clarifying language to conform to State guidelines. 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.

Additionally, during its review, the Finance Subcommittee discussed Socially Responsible Investing preferences by not investing in companies whose primary activity involves the extraction and production of fossil fuels. Staff is seeking City Council's direction on this matter. With management directive, Chandler will not invest City funds in companies in the fossil fuel industry.

RECOMMENDATION

Staff respectfully recommends the City Council:

1. Authorize the City Manager to sign a management directive to exclude companies involved in fossil fuels from the City's investment portfolio.

2. Adopt Resolution No. 23-2044, adopting the updated annual investment policy for Fiscal Year 2023-24 and delegating authority to the City Treasurer to invest and reinvest City funds, and rescinding Resolution No. 23-2036.

Attachment: Resolution 23-2044

RESOLUTION NO. 23-2044

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF AGOURA HILLS, CALIFORNIA, ADOPTING THE UPDATED ANNUAL INVESTMENT POLICY FOR FISCAL YEAR 2023-24 AND DELEGATING AUTHORITY TO THE CITY TREASURER TO INVEST AND REINVEST CITY FUNDS AND RESCINDING RESOLUTION NO. 23-2036

WHEREAS, on August 23, 2023, the City Council reviewed and adopted the City of Agoura Hill's Annual Statement of Investment Policy (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 Agoura Hills 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. Resolution No. 23-2036 adopting the Investment Policy on June 28, 2023, is hereby rescinded.

PASSED, APPROVED, AND ADOPTED this 23rd day of August 2023, by the following vote to wit:

AYES: ( )
NOES: ( )
ABSENT: ( )
ABSTAIN: ( )

____
Chris Anstead, Mayor

ATTEST:

____
Kimberly M. Rodrigues, City Clerk

CITY OF

AGOURA HILLS

CITY OF AGOURA HILLS
STATEMENT OF INVESTMENT POLICY

2023-2024

I. POLICY

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

The purpose of this investment policy is to identify various policies and procedures that will foster a prudent and systematic investment program designed to seek the City objectives of safety, liquidity and return on investment through a diversified investment portfolio.

This policy also serves to organize and formalize the City investment-related activities, while complying with all applicable statutes governing the investment of public funds. This policy is written to incorporate industry best practices and recommendations from sources such as the Government Finance Officers Association (GFOA), California Municipal Treasurers Association (CMTA), California Debt and Investment Advisory Commission (CDIAC) and the Association of Public Treasurers (APT).

II. SCOPE

This policy covers all funds and investment activities under the direct authority of the City, as set forth in the State Government Code, Sections 53600 *et seq.*, with the following exceptions:

- Proceeds of debt issuance shall be invested in accordance with the City's general investment philosophy as set forth in this policy; however, such proceeds are to be invested pursuant to the permitted investment provisions of their specific bond indentures.

- Any other funds specifically exempted by the City Council.

POOLING OF FUNDS

Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

III. PRUDENCE

Pursuant to California Government Code, Section 53600.3, all persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the ***Prudent Investor Standard:***

"...all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. 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 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 City. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

The Treasurer and other authorized persons responsible for managing City funds acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes provided that the Treasurer or other authorized persons acted in good faith. Deviations from expectations of a security's credit or market risk should be reported to the City Council in a timely fashion and appropriate action should be taken to control adverse developments.

IV. OBJECTIVES

The City's overall investment program shall be designed and managed with a degree of professionalism worthy of the public trust. The overriding objectives of the program are to preserve principal, provide sufficient liquidity, and manage investment risks, while seeking a market-rate of return.

- **SAFETY.** Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City will diversify its investments by investing funds among a variety of securities with independent returns.

- **LIQUIDITY**. The investment portfolio will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

- **RETURN ON INVESTMENTS**. The investment portfolio will 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.

V. DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived from California Government Code, Sections 41006 and 53600 et seq. The City Council is responsible for the management of the City's funds, including the administration of this investment policy. Management responsibility for the cash management of the City's funds is hereby delegated to the Treasurer.

The City Manager, after reviewing the City's cashflow needs with the Director of Finance, will authorize the amount of cash available to be invested by the City Treasurer.

The Treasurer will be responsible for all transactions undertaken and will establish a system of procedures and controls to regulate the activities of subordinate officials and employees. Such procedures will include explicit delegation of authority to the people responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

The Treasurer may authorize the Director of Finance to function 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 Treasurer, shall coordinate with the City Treasurer on investments, and shall discuss changes in the composition of the City's investment portfolio with the Treasurer prior to purchasing these investments.

The City may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of the overall portfolio's return and the cash flow requirements of the City.

VI. ETHICS AND CONFLICTS OF INTEREST

All participants in the investment process shall function as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. Thus, employees and officials involved in the investment process shall refrain from personal business activity that could create a conflict of interest or the appearance of a 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 Director of Finance any material interests in financial institutions with which they conduct business, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the City. 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. INTERNAL CONTROLS

Subject to the direction and supervision of the 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 are protected from loss, theft, fraud, or misuse.

The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

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."

Annually the City's auditor will conduct an independent analysis to review internal controls, account activity, compliance with policies and procedures and review of investment records and verify the investments have been made in accordance with this policy.

VIII. WIRE TRANSFER CONTROLS

All City wire transfers will be executed in accordance with written operating procedures specifying controls required for wire transfers of funds. All wire transfers require three City employees to initiate, approve, and release each transaction. Two factor authentication is required for each individual to engage in the wire release process, which includes unique passwords, and the use of bank security tokens generating random numerical passwords. Final release of any and all wires from the City, investment or otherwise, require the approval of either the City Manager or Director of Finance.

LAIF TRANSFERS

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 in accordance with paragraph 2 of Section VII.

IX. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

To the extent practicable, the Treasurer shall endeavor to complete investment transactions using a competitive bid process whenever possible. The City's Treasurer will determine which financial institutions are authorized to provide investment services to the City. It shall be the City's policy to purchase securities only from authorized institutions and firms.

The Treasurer shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions which are approved for investment purposes that are selected through a process of due diligence as determined by the City. Due inquiry shall determine whether such authorized brokers/dealers, and the individuals covering the City are reputable and trustworthy, knowledgeable, and experienced in Public City investing and able to meet all of their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

In accordance with Section 53601.5, institutions eligible to transact investment business with the City include:

1. Institutions licensed by the state as broker-dealer.
2. Institutions that are members of a federally regulated securities exchange.
3. Primary government dealers as designated by the Federal Reserve Bank.
4. National or state-chartered banks.
5. The Federal Reserve Bank.
6. Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the City, except where the City utilizes an external investment adviser in which case the City may rely on the adviser for selection.

All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the Treasurer with audited financials and a statement certifying that the institution has reviewed the California Government Code, Section 53600 et seq. and the City's investment policy. The Treasurer will conduct an annual review of the financial condition and registrations of such qualified bidders.

Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.
Selection of broker/dealers used by an external investment adviser retained by the City will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

X. AUTHORIZED INVESTMENTS

The City's investments are governed by the California Government Code, Sections 53600 et seq. Within the investments permitted by the Code, the City seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. The percentage holding limits listed in this section apply at the time the security is purchased.

Any investment currently held at the time the policy is adopted which does not meet the new policy guidelines can be held until maturity and shall be exempt from the current policy. At the time of the investment's maturity or liquidation, such funds shall be reinvested only as provided in the current policy.

An appropriate risk level shall be maintained by primarily purchasing securities that are of high quality, liquid, and marketable. The portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers.

1. **MUNICIPAL SECURITIES (REGISTERED TREASURY NOTES OR BONDS)** of any of the other 49 states in addition to 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, City, or authority of any of the other 49 states, in addition to California.

   - The securities are rated in a rating category of "A" or its equivalent or better by at least one nationally recognized statistical rating organization ("NRSRO").
   - No more than 5% of the portfolio may be invested in any single issuer.
   - No more than 30% of the portfolio may be in Municipal Securities.
   - The maximum maturity does not exceed five (5) years.

2. **U.S. TREASURIES** and other government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest. There are no limits on the dollar amount or percentage that the City may invest in U.S. Treasuries, provided that:

   - The maximum maturity is five (5) years.

3. **FEDERAL AGENCIES** 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 are no limits on the dollar amount or percentage that the City may invest in Federal City or Government-Sponsored Enterprises (GSEs), provided that:

   - No more than 30% of the portfolio may be invested in any single City/GSE issuer.
   - The maximum maturity does not exceed five (5) years.
   - The maximum percentage of callable City securities in the portfolio will be 20%.

4. **COMMERCIAL PAPER,** provided that the securities are issued by an entity that meets all of the following conditions in either paragraph (a) or (b) and other requirements specified below:

- No more than 10% of the outstanding commercial paper of any single issuer.
- No more than 25% of the City's investment assets under management may be invested in Commercial Paper. Under a provision sunsetting on January 1, 2026, no more than 40% of the portfolio may be invested in Commercial Paper if the City's investment assets under management are greater than $100,000,000.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed 270 days.

5. **SECURITIES** issued by corporations:

   - A corporation organized and operating in the United States with assets more than $500 million.
   - The securities are rated "A-1" or its equivalent or better by at least one NRSRO.
   - If the issuer has other debt obligations, they must be rated in a rating category of "A" or its equivalent or better by at least one NRSRO.

6. **SECURITIES** issued by other entities:

   - The issuer is organized within the United States as a special purpose corporation, trust, or limited liability company.
   - The securities must have program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.
   - The securities are rated "A-1" or its equivalent or better by at least one NRSRO.

7. **NEGOTIABLE CERTIFICATES OF DEPOSIT (NCDS),** issued by a nationally or state- chartered bank, a savings association, or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank, provided that:
   - The amount of the NCD insured up to the FDIC limit does not require any credit ratings.
   - Any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
   - No more than 30% of the total portfolio may be invested in NCDs (combined with CDARS).
   - No more than 5% of the portfolio may be invested in any single issuer.
   - The maximum maturity does not exceed five (5) years.

8. **COLLATERALIZED BANK DEPOSITS.** City's deposits with financial institutions will be collateralized with pledged securities per California

Government Code, Section 53651. There are no limits on the dollar amount or percentage that the City may invest in collateralized bank deposits.

9. **STATE OF CALIFORNIA LOCAL CITY INVESTMENT FUND (LAIF),** provided that:

- The City may invest up to the maximum amount permitted by LAIF.
- LAIF's investments in instruments prohibited by or not specified in the City's policy do not exclude the investment in LAIF itself from the City's list of allowable investments, provided LAIF's reports allow the Treasurer to adequately judge the risk inherent in LAIF's portfolio.

10. **LOCAL GOVERNMENT INVESTMENT POOLS**

- Other LGIPs permitted by client.
- There is no issuer limitation for Local Government Investment Pools

11. **CORPORATE MEDIUM-TERM NOTES (MTNS),** provided that:

- The issuer is a corporation 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.
- The securities are rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
- No more than 30% of the total portfolio may be invested in MTNs.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

12. **MUTUAL FUNDS AND MONEY MARKET MUTUAL FUNDS** that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that:

- **MUTUAL FUNDS** that invest in the securities and obligations as authorized under California Government Code, Section 53601 (a) to (k) and (m) to (q) inclusiveand that meet either of the following criteria:
    - Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
    - 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.
    - No more than 10% of the total portfolio may be invested in shares of any one mutual fund.

- **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:

    - Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
    - 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.
    - No more than 20% of the total portfolio may be invested in the shares of any one Money Market Mutual Fund.
    - No more than 20% of the total portfolio may be invested in these securities.

XI. PROHIBITED INVESTMENT VEHICLES AND PRACTICES

1. State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.
2. In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
3. Investment in any security that could result in a zero-interest accrual if held to maturity is prohibited. Under a provision sunsetting on January 1, 2026, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted.
4. Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
5. Purchasing or selling securities on the margin is prohibited.
6. The use of reverse repurchases agreements, securities lending or any other form of borrowing or leverage is prohibited.
7. The purchase of foreign currency denominated securities is prohibited.
8. Agencies that are not Qualified Institutional Buyers (QIB) as defined by the Securities and Exchange Commission are prohibited from purchasing Private Placement Securities. The SEC defines a QIB as having at least $100,000,000 in securities owned and invested.
9. The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is prohibited.
10. Crypto currency.

XII. INVESTMENT POOLS/MUTUAL FUNDS

The City shall conduct a thorough investigation of any pool or mutual fund prior to making an investment, and on a continual basis thereafter. The Treasurer shall develop a questionnaire which will answer the following broad questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities is safeguarded (including the settlement processes), and how often the securities are priced, and the program audited.
- A description of who may invest in the program, how often, and what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule, and when and how it is assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

XIII. COLLATERALIZATION

CERTIFICATES OF DEPOSIT (CDS). The City shall require any commercial bank or savings and loan association to deposit eligible securities with a City of a depository approved by the State Banking Department to secure any uninsured portion of a Non- Negotiable Certificate of Deposit. The value of eligible securities as defined pursuant to California Government Code, Section 53651, pledged against a Certificate of Deposit shall be equal to 150% of the face value of the CD if the securities are classified as mortgages and 110% of the face value of the CD for all other classes of security.

COLLATERALIZATION OF BANK DEPOSITS. This is the process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing repayment of deposited funds. The City shall require any bank or financial institution to comply with the collateralization criteria defined in the California Government Code, Section 53651.

XIV. DELIVERY,SAFEKEEPING AND CUSTODY

DELIVERY-VERSUS-PAYMENT (DVP). All investment transactions shall be conducted on a delivery-versus-payment basis.

SAFEKEEPING AND CUSTODY. To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all cash and securities in the City's portfolio shall be held in safekeeping in the City's name by a third-party custodian, acting as agent for the City under the terms of a custody agreement executed by the bank and the City. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by the City from the custodian listing all securities held in safekeeping with current market data and other information.

The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (a) local government investment pools; (ii) time certificates of deposit, and (iii) mutual funds and money market mutual funds since these securities are not deliverable.

XV. MAXIMUM MATURITY

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities.

The City will not invest in securities maturing more than five (5) years from the date of trade settlement, unless the City Council has by resolution granted authority to make such an investment.

XVI. RISK MANAGEMENT AND DIVERSIFICATION MITIGATING CREDIT RISK IN THE PORTFOLIO

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

- The diversification requirements included in the "Authorized Investments" section of this policy are designed to mitigate credit risk in the portfolio.
- No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.
- The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or the City's risk preferences.
- If a security owned by the City is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps will be taken:
- Any actions taken related to the downgrade by the investment manager will be communicated to the Treasurer in a timely manner.
- If a decision is made to retain the security, the credit situation will be monitored and reported to the City Council.

MITIGATING MARKET RISK IN THE PORTFOLIO

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The City recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The City will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The City further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The City, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The City will maintain a minimum of six months of budgeted operating expenditures in short-term investments to provide sufficient liquidity for expected disbursements.
- The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.
- The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the City based on the City's investment objectives, constraints, and risk tolerances.

XVII. REVIEW OF INVESTMENT PORTFOLIO

The Treasurer shall periodically, but no less than quarterly, review the portfolio to identify investments that do not comply with this investment policy and establish protocols for reporting major and critical incidences of noncompliance to the City Council.

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

XVIII. PERFORMANCE EVALUATION

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments.

The Treasurer shall monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s), which will be included in the Treasurer's quarterly report. The Treasurer shall select an appropriate, readily available index to use as a market benchmark.

XIX. REPORTING

MONTHLY REPORTS

Monthly transaction reports will be submitted by the Treasurer to the City Manager and City Council within 30 days of the end of the reporting period in accordance with California Government Code Section 53607.

Additionally, the Treasurer will submit a monthly investment report to the City Manager and the City Council which provides full disclosure of the City's investment activities within 45 days after the end of the month. These reports will disclose, at a minimum, the following information about the City's portfolio:

- An asset listing showing par value, cost, and independent third-party fair market value of each security as of the date of the report, the source of the valuation, type of investment, issuer, maturity date and interest rate.
- Transactions for the period.
- A description of the funds, investments, and programs (including lending programs) managed by contracted parties (i.e., LAIF, investment pools, outside money managers and securities lending agents)
- A one-page summary report that shows:
- Average maturity of the portfolio and modified duration of the portfolio.
- Maturity distribution of the portfolio.
- Percentage of the portfolio represented by each investment category.
- Average portfolio credit quality; and,
- Time-weighted total rate of return for the portfolio for the prior one month, three months, twelve months and since inception compared to the City's market benchmark returns for the same periods.
- A statement of compliance with investment policy, including a schedule of any transactions or holdings which do not comply with this policy or with the California Government Code, including a justification for their presence in the portfolio and a timetable for resolution.
- A statement that the City has adequate funds to meet its cash flow requirements for the next six months. or provide an explanation as to why sufficient money shall, or may, not be available.

ANNUAL REPORTS

An annual comprehensive report will be presented to the Governing Board. This report will include comparisons of the City's return to the market benchmark return, suggest policies and improvements that might enhance the investment program, and will include an investment plan for the coming year.

XX. REVIEW OF INVESTMENT POLICY

The investment policy will be reviewed by the Finance Subcommittee and adopted by resolution at least annually within 120 days of the end of the fiscal year, to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.
Any recommended modifications or amendments shall be presented by Staff to the City Council for their consideration and adoption.

GLOSSARY OF INVESTMENT TERMS

AGENCIES. Shorthand market terminology for any obligation issued by *a government-sponsored entity (GSE),* or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market.
FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called "FreddieMac" issues discount notes, bonds, and mortgage pass-through securities.

FNMA. Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "FannieMae," issues discount notes, bonds, and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as "GinnieMae," issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

PEFCO. The Private Export Funding Corporation assists exporters. The obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ANNUAL COMPREHENSIVE FINANCIAL REPORT. 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.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

ASKED. The price at which securities are offered.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER'S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from their own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of the call is a decline in interest rates. If interest rates decline, the issuer will likely call its current securities and reissue them at a lower rate of interest.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate. **CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS).** A private 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 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.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED BANK DEPOSIT. A bank deposit that is collateralized at least 100% (principal plus interest to maturity). The deposit is collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have various levels of prepayment risk, as compared to the underlying mortgage securities.

COLLATERALIZED TIME DEPOSIT. Time deposits that are collateralized at least 100% (principal plus interest to maturity). These instruments are collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for their own position.

DEBENTURE. A bond secured only by the general credit of the issuer.

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

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 investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a security to changes interest rates.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC). The Federal Deposit Insurance Corporation (FDIC) is an independent federal agency insuring deposits in U.S. banks and thrifts in the event of bank failures. The FDIC was created in 1933 to maintain public confidence and encourage stability in the financial system through the promotion of sound banking practices.

FEDERALLY INSURED TIME DEPOSIT. A time deposit is an interest-bearing bank deposit account that has a specified date of maturity, such as a certificate of deposit (CD). These deposits are limited to funds insured in accordance with FDIC insurance deposit limits.

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

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL CITY INVESTMENT FUND (LAIF). A voluntary investment fund opens to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local City Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MATURITY. The final date upon which the principal of a security becomes due and payable. The investment's term or remaining maturity is measured from the settlement date to final maturity.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively lesser amounts on either 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. Modified duration is the best single measure of a portfolio or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MONEY MARKET MUTUAL FUND. A mutual fund that invests exclusively in short-term securities. Examples of investments in money market funds are certificates of deposit and U.S. Treasury securities. Money market funds attempt to keep their net asset values at $1 per share.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in several types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO). A credit rating City 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.

NEGOTIABLE CERTIFICATE OF DEPOSIT (CD). A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state- licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to conduct U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

SECURITIES AND EXCHANGE COMMISSION (SEC). The U.S. Securities and Exchange Commission (SEC) is an independent federal government City responsible for protecting investors, maintaining fair and orderly functioning of securities markets, and facilitating capital formation. It was created by Congress in 1934 as the first federal regulator of securities markets. The SEC promotes full public disclosure, protects investors against fraudulent and manipulative practices in the market, and monitors corporate takeover actions in the United States.

SECURITIES AND EXCHANGE COMMISSION SEC) RULE 15C3-1. An SEC rule setting capital requirement for brokers and dealers. Under Rule 15c3-1, a broker or dealer must have sufficient liquidity in order to cover the most pressing obligations. This is defined as having a certain amount of liquidity as a percentage of the broker/dealer's total obligations. If the percentage falls below a certain point, the broker or dealer may not be allowed to take on new clients and may have restrictions placed on dealings with the current client.

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.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

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; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

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 considered to have no credit risk and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.