



**City of Beverly Hills  
Statement of Investment Policy**

**Fiscal Year 2020/21**

## TABLE OF CONTENTS

### Investment Policy

- 1.0 Policy
- 2.0 Scope
- 3.0 Prudence
- 4.0 Objectives
- 5.0 Delegation of Authority
- 6.0 Ethics and Conflicts of Interest
- 7.0 Authorized and Suitable Investments
- 8.0 Prohibited Investments
- 9.0 Social Responsibility/Boycott
- 10.0 Maximum Maturities
- 11.0 Review of Investment Policy

### Appendices

#### Appendix A Investment Procedures

- 1.0 Delegation of Authority Procedures
- 2.0 Approval of Authorized Financial Dealers, Institutions and Portfolio Managers
- 3.0 Review of Investment Pools/Mutual Funds
- 4.0 Collateralization Requirements
- 5.0 Procedures for Safekeeping and Custody
- 6.0 Risk Management and Diversification Requirements and Procedures
- 7.0 Internal Control and Audits
- 8.0 Review of the Investment Portfolio
- 9.0 Performance Evaluation
- 10.0 Reporting

#### Appendix B Glossary of Terms

#### Appendix C Ratings Definition

## **City of Beverly Hills Investment Policy**

### **1.0 Policy:**

This Investment Policy applies to the City of Beverly Hills (the City). It is the policy of the City of Beverly Hills to protect, preserve and maintain its assets. The City of Beverly Hills shall invest public funds in a manner that will provide maximum security, meet the respective cash flow demands of the City, and offer the highest investment return, while conforming to the City's policies, as well as all State and Local statutes governing the investment of public funds. While the Investment Policy is designed to provide guidance within the scope of California Government Code, there are further procedures outlined in Appendix A, which the City Treasurer and Director of Finance may change as appropriate, that details additional procedural requirements.

### **2.0 Scope:**

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by outside fiscal agents under the provisions of bond indentures, funds in the City's employee deferred compensation plan, or other funds as designated by the City Council, City Treasurer, or Director of Finance. Funds contained in the City's pool are designated as "General Portfolio." This Investment Policy applies to the investment of surplus funds contained in the "General Portfolio." These funds are accounted for in the Comprehensive Annual Financial Report and include:

- The General Fund
- All Special Revenue Funds
- All Debt Service Funds
- All Capital Projects Funds
- All Enterprise Funds
- All Internal Service Funds
- All Trust and City Funds

### **3.0 Prudence:**

The City of Beverly Hills is held to the prudent investor standard set forth in Section 53600.3 of the Government Code which holds that all governing bodies of local agencies or persons authorized to make investment decision on behalf of those local agencies investing in public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard.

The City Treasurer and other authorized persons responsible for managing the City's funds acting in accordance with written procedures and this Investment Policy and exercising due diligence and good faith shall be relieved of personal responsibility for an individual security's credit risk or market price change.

### **4.0 Objectives:**

The primary objectives, of the investment activities of the City of Beverly Hills in priority order are:

#### **4.1. Safety:**

Safety of principal is the foremost objective of the investment program. "Safety" means the overall value of invested public funds shall not be diminished in the process of securing and investing those funds or over the duration of the investments. To attain this objective, portfolio diversification is required.

#### **4.2. Liquidity:**

The investment portfolio of the City of Beverly Hills will remain sufficiently liquid to enable the City to meet all operating requirements of the City which might be reasonably anticipated.

#### **4.3. Return on Investment:**

The investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow characteristics of such portfolio.

#### **5.0 Delegation of Authority:**

Authority to manage the investment program of the City of Beverly Hills is derived from Government Code Sections 53601 and 53607, Municipal Code Sec. 2-3, and Municipal Code Sec. 2-3.1102. Pursuant to Government Code Section 53607, the City Council delegates the authority to invest or reinvest surplus funds, and to sell or exchange securities so purchased for and on behalf of the City, to the City Treasurer for the one-year period (July 21, 2020 – June 30, 2021) commencing from the date of adoption of this Investment Policy. Subsequent delegations of authority for one-year periods will be included in the annual adoption of the City's budget and financial policies.

No person may engage in an investment transaction except as provided under the terms of this Policy. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

#### **6.0 Ethics and Conflicts of Interest:**

Officers and employees involved in the investment process are required by the City of Beverly Hills' Conflict of Interest Policy and State Government Code Section 81000 to disclose annually to the City Council any material financial interests in financial institutions that conduct business within the City and further to disclose any large personal financial/investment positions that could be related to the performance of the City, particularly with regard to the time of purchase and sales, as part of the City's conflict of interest reporting requirements.

Said employees shall also comply with the City's Administrative Regulation (AR 3B.3) Acceptance of Gifts as a result of being employees of the City of Beverly Hills.

#### **7.0 Authorized and Suitable Investments:**

The City's investments are governed by California Government Code Sections 53600 *et seq.*, and are limited further by the provisions of this Policy. In the event a discrepancy is found between this Policy and Code, the more restrictive parameters will take precedence. Percentage limits and minimum credit quality listed in this section shall apply at time of purchase.

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.

### **7.1 U.S. Treasuries:**

U.S. Treasuries and other government obligations for which the full faith and credit of the United States are pledged for payment of principle and interest.

- The maximum maturity is five (5) years
- There are no limits on the dollar amount or percentage that the City may invest in U.S. Treasuries

### **7.2 Federal Agencies/Government Sponsored Enterprises (GSEs):**

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 Agency or Government-Sponsored Enterprises (GSEs).
- No more than 30% of the portfolio may be invested in any single Agency/GSE issuer.
- The maximum maturity shall not exceed five (5) years.
- The maximum percent of agency callable securities in the portfolio will be 20%.

### **7.3 Municipal Securities:**

Municipal securities include obligations of the City, the State of California, and any local agency within the State of California, provided that:

- 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 25% of the portfolio may be in Municipal Securities in the aggregate.
- The maximum maturity may not exceed five (5) years.

### **7.4 Municipal Securities (Registered Treasury Notes or Bonds):**

Municipal securities that are 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, agency, 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 25% of the portfolio may be in Municipal Securities in the aggregate.
- The maximum maturity does not exceed five (5) years.

#### **7.5 Bankers’ Acceptances:**

Bankers’ Acceptances 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 debt obligations which are rated in a rating category of “A” or its equivalent or better by at least one NRSRO.

- No more than 40% of the portfolio may be invested in Banker’s Acceptances.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed 180 days.

#### **7.6 Negotiable Certificates of Deposit:**

Negotiable Certificates of Deposit 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 time deposits).
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

#### **7.7 Non-Negotiable Certificates of Deposit:**

Federally insured time deposits as well as collateralized time deposits in excess of insured amounts which are fully collateralized with securities in accordance with California law, in state or federally chartered banks, savings and loans, or credit unions, provided that:

- No more than 30% of the portfolio will be invested in a combination of federally insured, collateralized time deposits and negotiable certificates of deposit.
- The maximum maturity does not exceed one (1) year.

#### **7.8 Collateralized Bank Deposits:**

The 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.

#### **7.9 Local Agency Investment Fund (LAIF):**

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 Investment Policy do not exclude the investment in LAIF itself from the City's list of allowable investments, provided LAIF's reports allow the City Treasurer or designee to adequately judge the risk inherent in LAIF's portfolio.

#### **7.10 Local Government Investment Pools (LGIP):**

The City may invest in LGIPs. There is no issuer limitation for LGIPs.

#### **7.11 Repurchase Agreements:**

Repurchase agreements collateralized only with U.S. Treasuries or obligations of its agencies or GSEs. Repurchase agreements may only be made with primary dealers of the Federal Reserve Bank of New York. The market value of the collateral will not be less than the greater of 102% of the funds borrowed against those securities or the sum of the funds borrowed against the securities plus accrued interest.

- Securities used as collateral for repurchase agreements will be delivered to an acceptable third party custodian.
- Repurchase agreements are subject to a Master Repurchase Agreement between the City and the provider of the repurchase agreement. The Master Repurchase Agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA).
- No more than 20% of the portfolio may be invested in repurchase agreements.
- The maximum maturity shall not exceed 7 days.

#### **7.12 Medium term corporate notes:**

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 shall be rated in the rating category of A or its equivalent or higher by at least one NRSRO.
- No more than 30% of the total portfolio may be invested in medium-term corporate notes.
- No more than 5% may be invested in any one issuer. The maximum maturity shall not exceed five (5) years.

#### **7.13 Commercial paper:**

Commercial paper shall be issued by an entity that meets all of the following conditions in either paragraph (a) or (b) and other requirements specified below:

- a) Securities issued by corporations:
  - The issuer is a corporation organized and operating in the United States with assets in excess of \$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.
- b) 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.
- The City may purchase no more than 10% of the outstanding commercial paper of any single issuer.
  - No more than 25% of the portfolio may be invested in commercial paper.
  - No more than 5% of the portfolio may be invested in any single issuer.
  - The maximum maturity does not exceed 270 days.

**7.14 Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations from Issuers Not Defined in Sections 8.1 and 8.2:**

The City may invest in the aforementioned securities provided that the securities are rated in a rating category of “AA” or its equivalent or better by a NRSRO.

- No more than 15% of the total portfolio may be invested in these securities.
- No more than 5% of the portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer.
- The maximum legal final maturity does not exceed five (5) years.

**7.15 Money Market Mutual Funds**

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 money market mutual funds.

**7.16 Supranationals:**

The City may invest in supranationals provided that:

- Issues are US 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.
- The securities are rated in a rating category of “AA” or its equivalent or better by a NRSRO.
- No more than 30% of the total portfolio may be invested in these securities.
- No more than 10% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

### **8.0 Prohibited Investments:**

State law notwithstanding, any investments not specifically described herein are prohibited. Moreover, the City of Beverly Hills shall not invest any funds pursuant to Section 53601.6:

- Inverse floaters
- Range notes
- Interest-only strips that are derived from a pool of mortgages
- Any security that could result in zero interest accrual if held to maturity.

### **9.0 Social Responsibility/Boycott:**

Within the fiduciary framework of California Government Code §53600.3 and 53600.5, the City has a desire to encourage investments that support sound environmental, social and governance (ESG) investing. While the portfolio may not be classified as an ESG portfolio, investments in entities that support community well-being through safe and environmentally sound practices and fair labor practices and equality of rights are encouraged. Investments are discouraged in entities that do not have safe and environmentally sound practices, fair labor practices, or that do not accord equality of rights to all persons.

Beverly Hills is a leader in protecting civil rights and preventing discrimination. In accordance with the spirit of Council Resolution 16-R-13078 in support of AB 2844 (California Combating the Boycott, Divestment and Sanctions Act of 2016), the City of Beverly Hills shall not knowingly invest in or do business with companies that engage in a boycott or other discriminatory practices against nations or persons. A list of companies that participate in BDS shall include such enterprises as are designated from time to time by City Council or the City Treasurer.

### **10.0 Maximum Maturities:**

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of Beverly Hills will not directly invest in securities maturing more than five (5) years from the date of purchase, unless the City Council has by resolution granted authority to make such an investment. Authority to make such investments shall be received no less than three months prior to the initial investment.

### **11.0 Review of Investment Policy:**

The City Treasurer may review and update this Investment Policy annually, and as appropriate, present the updated Policy to the City Council for consideration and adoption.

Date: \_\_\_\_\_

Prepared by:

---

City Treasurer

On behalf of the City Council, Approved on \_\_\_\_\_:

---

City Clerk

## **Appendix A Investment Procedures**

The following procedures and requirements are to be implemented in order to ensure the City's investment goals of safety, liquidity, and return are achieved. The procedures are written to aid the City Treasurer and City staff in implementing an appropriate level of diversification, ensuring requirements for third-party risk, and providing best practices in the day-to-day management of the City's investments.

### **1.0 Delegation of Authority Procedures:**

The City Treasurer has appointed the following persons with responsibility for treasury operations and the reporting, under the City Treasurer's general direction:

- Deputy City Treasurers (if any)
- Director of Finance and Assistant Director of Finance.

The City Treasurer may also establish an Investment Committee comprising:

- City Treasurer, Deputy City Treasurers (if any), the Director of Finance
- Assistant Director of Finance (Deputy City Treasurers)
- Such other persons as may be selected from time to time, inter alia, assisting the City Treasurer in setting investment parameters, selecting investments, determining the City's investment program, and establishing written procedures for the operation of the investment program consistent with the Investment Policy.

### **2.0 Approval of Authorized Financial Dealers, Institutions and Portfolio Managers:**

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

The City Treasurer or designee shall maintain 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 Agency. Due inquiry shall determine whether such authorized broker/dealers, and the individuals covering the Agency are reputable and trustworthy, knowledgeable and experienced in Public Agency 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:

- Institutions licensed by the state as a broker-dealer.
- Institutions that are members of a federally regulated securities exchange.
- Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
- Nationally or state-chartered banks.

- The Federal Reserve Bank.
- 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 Treasurer, except where the City Treasurer 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 City Treasurer or designee with:

- Audited financials
- A statement certifying that the institution has reviewed the California Government Code, Section 53600 et seq. and the City's Investment Policy.
- Proof of Financial Industry Regulatory Authority (FINRA) certification
- Proof of State registration

The City Treasurer or designee will conduct an annual review of the financial condition and registrations of such qualified bidders.

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.

### **3.0 Review of Investment Pools/Mutual Funds:**

The City Treasurer or designee shall conduct a thorough investigation of any pool or money market mutual fund prior to making an investment, and on a periodic basis thereafter. The City Treasurer or designee shall address the following items:

- 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 are 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, 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 is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

### **4.0 Collateralization Requirements:**

All investments of the City of Beverly Hills shall be collateralized to the extent required by the State Government Codes. (e.g., repurchase agreements and collateralized time deposits.)

The collateral for time deposits in local savings associations is held at the Federal Home Loan Bank. The collateral for time deposits in local banks is held in the City's name in the trust department of one of the banks with which the City has a current safekeeping agreement (so long as the issuer of the time deposit is not the same bank as the bank holding the collateral) or with the Federal Reserve Bank.

Acceptable collateral instruments are U.S. Treasury or Federal Agency issues equal in market value to at least 110% of the deposit of the City of Beverly Hills. Alternatively, prime seasoned first trust deeds meeting the requirements of Government Code Section 53651.2 and equal in value to at least 150% of the deposit of the City of Beverly Hills may also be placed by savings associations with the Federal Home Loan Bank, San Francisco to cover collateral requirements for the City.

Securities which serve as collateral for repurchase agreements with banks may be held in the issuing bank's trust department, provided that a master repurchase agreement has been executed insuring the fiduciary separation of these assets from other bank assets.

#### **5.0 Procedures for Safekeeping and Custody:**

All security transactions, including collateral for repurchase agreements, entered into by the City of Beverly Hills shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian and evidenced by safekeeping receipts.

The transferring of investment funds will be carried out exclusively by use of the Federal Reserve Bank's electronic wire transfer system. Each banker or primary dealer with which the City of Beverly Hills does business shall receive in writing from the City Treasurer and Director of Finance or designee a listing which limits transfers of funds to pre-authorized bank accounts only.

The listing will also contain the names of the City staff authorized to request such transfers and will be updated in writing for changes of authorized staff and bank accounts as necessary.

Transfers from one account of the City to another shall require the request of only one authorized staff member. Transfers from the City's account to third parties shall require the request of two authorized staff members.

### **6.0 Risk Management and Diversification Requirements and Procedures**

#### **6.1 Mitigating Credit Risk in the Portfolio**

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to 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 the City's Investment 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 the City's Investment 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 City's risk preferences.

- The City Treasurer or designee will monitor the portfolio for compliance with minimum credit requirements. If securities owned by the City are downgraded by an NRSRO to a level below the quality required by the City's Investment Policy, it will be the City's procedure to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.
- If a security is downgraded, the City Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.
- If a decision is made to retain a security downgraded below the minimum credit quality required by the City's Investment Policy, its presence in the portfolio will be monitored and reported monthly to the City Council.

## **6.2 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 the City's Investment Policy.

## **7.0 Internal Control and Audits:**

A review may be part of the City's annual financial audit performed by an independent certified public accountant which is designed to meet the requirements of the federal Single Audit Act of 1984 and related Office of Management and Budget Circular A-133, or at any other time as determined by the Director of Finance.

## **8.0 Review of the Investment Portfolio:**

The City Treasurer or designee shall periodically, but no less than quarterly, endeavor to review the portfolio to identify investments that do not comply with the City's Investment Policy. Minor deviations such as non-compliant concentration limits shall be reported to the City Manager. More significant deviations such as the purchase of a security with a credit rating below the

minimum credit requirement, or an unauthorized security, shall be reported to the City Council.

### **9.0 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 budgetary goals of the City, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments.

The City Treasurer or designee shall monitor and evaluate the portfolio's performance relative to comparable duration/comparable average maturity benchmarks (such as U.S. Treasury bills/notes) or alternative investment options. The use of benchmarks is to provide a comparison rather than to establish a predetermined target rate of return.

### **10.0 Reporting:**

Quarterly Investment Reports may be prepared and presented to the City Council for acceptance as provided in Government Code Section 53646.

Monthly Reports of all receipts, disbursement, and fund balances shall be prepared and presented to the Council for acceptance as provided in Government Code Section 41004.

Per Government Code 53607, the City Treasurer, having been delegated authority by the legislative body, shall make a report of monthly transactions to the legislative body.

## **Appendix B Glossary of 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. 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.

**ASKED.** The price at which a seller offers to sell a security.

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

**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.

**BID.** The price at which a buyer offers to buy a security.

**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 his 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 a call is a decline in interest rates. If interest rates decline since an issuer issues



securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

**CERTIFICATE OF DEPOSIT (CD).** A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

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

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

**COST YIELD.** The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

**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.

**CURRENT YIELD.** The annual income from an investment divided by the current market value. Since the mathematical 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.

**DEALER.** A dealer acts as a principal in security transactions, selling securities from and buying securities for his 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.

**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 bond to changes in interest rates. (See modified duration).

**FEDERAL FUNDS RATE.** The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

**FEDERAL OPEN MARKET COMMITTEE.** A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

**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 AGENCY INVESTMENT FUND (LAIF).** A voluntary investment fund open 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 Agency 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.

**MARKING TO MARKET.** The process of posting current market values for securities in a portfolio.

**MATURITY.** The final date upon which the principal of a security becomes due and payable.

**MEDIUM TERM NOTES.** Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small 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's 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.

**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 various 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 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.

**NEGOTIABLE 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 and are payable upon order to the bearer or initial depositor (investor).

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

**PREPAYMENT SPEED.** A measure of how quickly principal is repaid to investors in mortgage securities.

**PREPAYMENT WINDOW.** The time period over which principal repayments will be received on mortgage securities at a specified prepayment speed.

**PRIMARY DEALER.** A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out 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 INVESTOR RULE.** A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "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."

**REALIZED YIELD.** The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

**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.** 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.

**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.

**VOLATILITY.** The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

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

## Appendix C Ratings Definitions

Long-Term Debt and Individual Bank Ratings				
Rating Interpretation	S&P (1)	Moody's(1)	Fitch (2)	Fitch Individual Bank Rating
Best-quality grade	AAA	Aaa	AAA	A
High-quality grade	AA+	Aa1	AA+	A
	AA	Aa2	AA	A/B
	AA-	Aa3	AA-	B
Upper Medium Grade	A+	A1	A+	B
	A	A2	A	B/C
	A-	A3	A-	B/C
Medium Grade	BBB+	Baa1	BBB+	C
	BBB	Baa2	BBB	C/D
	BBB-	Baa3	BBB-	C/D
Speculative Grade	BB+	Ba1	BB+	D
	BB	Ba2	BB	D
	BB-	Ba3	BB-	D
Low Grade	B+	B1	B+	D/E
	B	B2	B	D/E
	B-	B3	B-	D/E
Poor Grade to Default	CCC+	Caa	CCC	D/E
In Poor Standing	CCC	-	-	D/E
	CCC-	-	-	D/E
Highly Speculative Default	CC	Ca	CC	D/E
	-	C	-	E
Default	-	-	DDD	E
	-	-	DD	E
	D	-	D	E

(1) Rating for both Long-Term Debt and Individual Banks

(2) Long-Term Debt Rating only

Short-Term Municipal Note Investment Grade Ratings			
Rating Interpretation	S&P	Moody's	Fitch
Superior Capacity	SP-1+/SP-1	MIG-1	F1+/F1
Strong Capacity	SP-2	MIG-2	F2
Acceptable Capacity	SP-3	MIG-3	F3

Short-Term Commercial Paper Investment Grade Ratings			
Rating Interpretation	S&P	Moody's	Fitch
Superior Capacity	A-1+/A-1	P-1	F1+/F1
Strong Capacity	A-2	P-2	F2
Acceptable Capacity	A-3	P-3	F3