CHAPTER FOUR: ORGANIZATION, FUNCTIONS AND GENERAL PROVISIONS

SUBCHAPTER 4.02: Investment Policy

Division 1: General Principles

4.02.010 Policy Statement and Purpose

It is the policy of the Town of Colma to invest public funds in a manner which will provide safety, liquidity and yield through a diversified investment portfolio suitable for management by the Town Staff. At all times the policy shall adhere to daily cash flow requirements and conforming to all State statutes (California Government Code (California Government Code) §53600, et seq.) governing the investment of public funds.

> [*History:* Formerly § 1.03.010; Adopted Res 2000-75, 12/13/2000; Res 2014-07, 2/13/14; Res 2016-50, 11/9/16; Res 2018-45, 10/24/18]

4.02.020 Scope

This Investment Policy applies to all invested financial assets of the Town of Colma, unless specifically exempted or covered by other investment criteria, such as in a bond or trust covenant or indenture. These funds are accounted for in the Town Annual Audited Financial Statements, and include the General Fund, Special Revenue Funds, Capital Project Funds, and Internal Service Funds.

Except for cash held in separate restricted funds, the Town will pool cash balances from all funds for investment in order to more effectively manage cash resources held by the Town. Investment income will be allocated to the Town's Funds based upon their respective cash balances and in accordance with Generally Accepted Accounting Principles (GAAP).

> [*History:* Formerly § 1.03.020; Adopted Res 2000-75, 12/13/2000; Res 2014-07, 2/13/14; Res 2016-50, 11/9/16; Res 2018-45, 10/24/18]

4.02.030 Objectives/Performance Standards

The overall program shall be designed and managed with a degree of professionalism worthy of the public trust. The primary objectives, in order of priority, of the Town's investment activities shall be:

A) *Safety*: Safety of principal is the foremost objective of the investment program. The Town's investments shall be undertaken in a manner that seeks to safeguard the principal of the funds under its control by maintaining an appropriate risk level.

B) *Liquidity:* The Town's investment portfolio will remain sufficiently liquid to enable the Town to meet its reasonably anticipated cash flow requirements.

C) *Yield:* Yield should become a consideration only after the basic requirements of safety and liquidity have been met. The Town seeks to attain market average rate of return on its investments throughout economic cycles, consistent with constraints imposed by its safety objectives and cash flow considerations.

D) *Diversification:* The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. This shall also conform with applicable sections of the Government Code. To attain this objective, the Town will initially diversify its investments by investing funds with suitable public agency pools which can provide a variety of securities and financial institutions meeting this requirement for diversification.

E) *Hold To Maturity*: The Town intends to hold its investments to maturity in order to maximize its return on its investments and minimize its exposure to potential losses resulting from temporary declines in the market values of its investments. However, if a decline in the market value of a security is deemed by Staff to be permanent, the security may be sold early to minimize the loss of principal. Although there may be opportunities to resell securities, this type of regular trading is not recommended.

F) *Benchmark*: Based on a passive investment strategy and a portfolio consisting of primarily bank deposits and public agency investment pools, the Treasurer may use as a comparison yield benchmark portfolios of similar average investment maturity, e.g. 90 Day United States Treasury Bill, 6 Month United States Treasury Bill, or the State Treasurer Local Agency Investment Fund (LAIF). In the event the Council authorizes investments in other securities as provided for in Section 4.02.070(A)(B), the Treasurer shall identify whether an alternative benchmark shall be presented to the City Council for approval.

[*History:* Formerly § 1.03.030; Adopted Res 2000-75, 12/13/2000; Res 2013-23, 7/11/13; Res 2016-50, 11/9/16; Res 2018-45, 10/24/18]

Division 2: Operations

4.02.040 Delegation of Authority and Internal Controls

A) As authorized in Government Code Section 53607, the City Council delegates the authority to invest funds of the Town to the Treasurer and/or any duly appointed Deputy Treasurer. The Treasurer and any duly appointed Deputy Town Treasurer shall make all investment decisions and transactions in accordance with State law and this investment policy. The City Manager is designated as the City Treasurer, in accordance with a Resolution adopted by the City Council. The City Treasurer has designated the Chief of Police and Administrative Services Director as Deputy Town Treasurers for the purpose of carrying out investment transactions, at such times as the Treasurer is unavailable.

B) Pursuant to California Government Code Section 53607, the delegation of the Treasurer and appointed Deputy Treasurer, shall be for a one-year period or until the delegation of authority is revoked or expires. In accordance with the law, the City Council may renew the authority each year as part of an annual review of this policy.

C) The Treasurer shall oversee the implementation of internal controls to regulate investment and banking activities and establish procedures for the operation of the investment program.

D) The Town 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 Town. Authorized individuals acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

E) The Town may choose to engage the services of one or more external investment managers to assist in the management of the Town's investment portfolio in a manner consistent with the Town's objectives. A separate approval action by the City Council shall be taken at a public meeting prior to the use of an external manager. Once approved said external manager may be granted discretion to purchase and sell investment securities in accordance with this investment policy. Such managers must be registered under the Investment Advisors Act of 1940, and operate in accordance with applicable laws and regulations.

F) Periodically as deemed appropriate by the City Manager and/or the City Council an independent analysis by an external auditor shall be conducted to review internal controls, account activity and compliance with policies and procedures.

[*History:* Formerly § 1.03.040; Adopted Res 2000-75, 12/13/2000; Amended Res 2011-05, 3/9/2011; Res 2013-23, 7/11/13; Res 2014-07, 2/13/14; Res 2016-50, 11/9/16; Res 2018-45, 10/24/18]

4.02.050 Prudence

A) 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: "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." For local agency funds invested in the county treasury, the county treasurer serves as a fiduciary and is subject to the prudent investor standard.

[*History:* Formerly § 1.03.050; Adopted Res 2000-75, 12/13/2000; Res 2007-51, 9/12/07; Res 2013-23, 7/11/13; Res 2014-07, 2/13/14; Res 2016-50, 11/9/16; Res 2018-45, 10/24/18]

4.02.060 Authorized and Suitable Investments

This policy restricts the Town to only invest in the security types below, which do not exceed the authorized investments found in California Government Code sections 53601 and 53651:

A) **U. S. Government** United States Treasury Bills, Notes, and Bonds backed by the full faith and credit of the United States Government are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio that may be invested in this category. The maximum maturity of these securities is five years.

B) **U.S. Government Sponsored Enterprise Debt (GSEs) (known as Agencies)** Obligations, participations, or other instruments of, or issued by, a federal agency or U. S. Government sponsored enterprise. Such agencies include but are not limited to: Federal National Mortgage Association (FNMA); Federal Home Loan Bank (FHLB); Government National Mortgage Association (GNMA); Community Development Corporation (CDC), Small Business Association (SBA), Tennessee Valley Authority (TVA) and Federal Home Loan Mortgage Corporation (FHLMC). The Town shall limit to no more than 20% of the portfolio that may be invested in this category. The maximum maturity for agency securities is five years.

C) **Bankers' Acceptances (BAs)** Bankers' acceptances, otherwise known as bills of exchange or time drafts, that are drawn on and accepted by a commercial bank. Bankers' acceptances must be secured by the irrevocable primary obligation of the accepting domestic bank. Purchasers are limited to issuers whose short-term debt is rated "A-1" or higher, or the equivalent, by a Nationally Recognized Statistical - Rating Organization (NRSRO). Bankers' acceptances cannot exceed a maturity of 180 days. A maximum of 20 percent of the portfolio may be invested in this category. The amount invested in bankers' acceptances with any one financial institution in combination with any other debt from that financial institution shall not exceed 20 percent of the portfolio.

D) **Commercial Paper** Unsecured promissory notes issued to finance short term credit needs. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

(1) The entity meets the following criteria: (i) Is organized and operating in the United States as a general corporation. (ii) Has total assets in excess of five hundred million dollars ($500,000,000). (iii) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by a nationally recognized statistical-rating organization.

(2) The entity meets the following criteria: (i) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (iii) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization.

Eligible commercial paper shall have a maximum maturity of 270 days or less and not represent more than 10 percent of the outstanding paper of an issuing corporation. A maximum of 15 percent of the portfolio may be invested in this category. The amount invested in commercial paper of any one issuer in combination with any other debt from that issuer shall not exceed 10 percent of the portfolio.

E) **Negotiable Certificates of Deposit (NCDs)** Investments issued by a nationally or state chartered bank, a savings association or a federal association, a state or federal credit union, or by a state-licensed branch of a foreign bank. Allowable NCDs are issued by a nationally or state chartered bank or savings and loan association, or by a state licensed branch of a foreign bank. Negotiable certificates of deposit (NCDs) purchases are limited to institutions which have long-term debt rated "A" or better and/or have short-term debt rated at least "A-1" or higher, or the equivalent by a NRSRO. A maximum of 20 percent of the portfolio may be invested in this category. The amount invested in NCDs with any one financial institution in combination with any other debt from that financial institution shall not exceed 15 percent of the portfolio. The maximum maturity of these securities is five years.

F) **Certificates of Deposits**.

(1) **Negotiable CDs (NCDs):** Investments issued by a nationally or state chartered bank, a savings association or a federal association, a state or federal credit union, or by a state-licensed branch of a foreign bank. Allowable NCDs are issued by a nationally or state chartered bank or savings and loan association, or by a state licensed branch of a foreign bank. Negotiable certificates of deposit (NCDs) purchases are limited to institutions which have long-term debt rated "A" or better and/or have short-term debt rated at least "A-1" or higher, or the equivalent by a NRSRO. A maximum of 20 percent of the portfolio may be invested in this category. The amount invested n NCDs with any one financial institution in combination with any other debt from that financial institution shall not exceed 15 percent of the portfolio. The maximum maturity of these securities is five years.

(2) **Time CDs (TCDs):** Funds placed with commercial banks and savings and loans. The amount on deposit shall not exceed the shareholder's equity in the financial institution. To be eligible for purchase, the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided Government Code Section 53635.2. TCs are required to be collateralized as specified under Government Code Section 53630 et. seq. The Treasurer, at his discretion, may waive the collateralization requirements for any portion that is covered by federal (FDIC) insurance. The Town shall have a signed agreement with the depository per Government Code Section 53649. There is no limitation as to the percentage of the portfolio that may be invested in this category. The maximum maturity of these securities may not exceed five (5) years.

(3) **Bank/Brokered CDs (BCDs):** Similar to TCDs, above. BCDs are fully insured by either FDIC or NCUSIF, which is limited to $250,000 per purchase. The amount invested in NCDs with any one financial institution in combination with any other debt from that financial institution shall not exceed 30 percent of the portfolio. The maximum maturity of these securities may not exceed five (5) years.

G) **Local Agency Investment Fund (LAIF)** LAIF was created in the California State Treasury by California Government Code section 16429.1. LAIF holds local government funds in trust in a state investment pool in order to provide safety, liquidity and the benefits of the investment pool yield for local government entities invested in LAIF. The Town may invest up to the maximum as permitted by LAIF.

H) **San Mateo County Investment Pool (SMCIP)** The San Mateo County Treasurer accepts voluntary deposits from agencies not mandated to utilize its treasury services. The Fund may impose withdrawal and / or deposit limits, which will be considered as part of the overall Town portfolio.

I) **Money Market Funds**. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-I and following). The company shall have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs. (B) 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 five hundred million dollars ($500,000,000). A maximum of 20 percent of the portfolio may be invested in this category with a maximum of 10 percent exposure to any one fund. For due diligence, the Treasurer shall maintain access to a copy of the current Prospectus for any mutual fund in which the Town has funds invested.

J) **Medium Term Notes (MTNs)** Medium term notes as defined in California Government Code Section 53601(k) are unsecured, corporate and depository institution debt obligations. Allowable medium term notes must be issued by corporations organized and operating within the United States (U.S.) or by depository institutions licensed by the U.S. or any state and operating within the U.S. MTNs must be rated in a rating category of "A" or its equivalent or better by Moody's or Standard and Poor's. A maximum of 15 percent of the City's portfolio may be invested in this category and a maximum of 5 percent with any one issuer. The maximum maturity of these securities is five years.

[*History:* Formerly § 1.03.110; Adopted Res 2000-75, 12/13/2000; Amended Res 2011-05, 3/9/2011; Res 2013-23, 7/11/13; Res 2014-07, 2/13/14; Res 2016-50, 11/9/16; Res 2018-45, 10/24/18; Res 2019-40, 7/24/19]

4.02.070 Summary of Investment Parameters and Additional Limits

Investment Type	Portfolio Limits	Maximum Maturity
US Treasury Bills, Notes & Bonds	None	5 Years
US Government Sponsored Agencies*	No more than 20%	5 Years
Bankers Acceptances*	No more than 20%	180 Days
Commercial Paper*	No more than 15%	270 Days
Negotiable CDs*	No more than 20%	5 Years
Time CDs	None	5 Years
Bank/Brokered CDs	No more than 30%	5 Years
LAIF	Program limits max deposit to $65	N/A

	million	
San Mateo County Investment Pool (SMCIP)	No Max- Minimum program deposit $250,000	N/A
Money Market Funds*	No more than 20%	N/A
Medium Term Notes*	No more than 15%	5 Years

The investment types denoted with a "*" in the Table above, have further limitations under this policy as follows:

A) Prior to investing in these types require a separate authorization by a majority of the City Council prior to the purchase.

B) If authorized, the aggregate of these investment types shall not exceed 40% of the total portfolio.

[*History:* Formerly § 1.03.115; Adopted Res 2011-05, 3/9/2011; Res 2014-07, 2/13/14; Res 2016-50, 11/9/16; Res 2018-45, 10/24/18; Res 2019-40, 7/24/19]

4.02.080 Authorized Investments for Bond and Other Debt Proceeds

Bond and other debt proceeds shall be invested in securities permitted by the applicable financing documents. If the documents are silent as to the permitted investments, proceeds will be invested in securities permitted by this Policy. Notwithstanding the provisions of Policy, the percentage or dollar portfolio limitations listed in elsewhere in this Policy do not apply to proceeds from a debt issuance. In addition to the securities listed in Section 4.02.070 above, proceeds may be invested in structured investment products if approved by the Treasurer.

[*History:* Formerly § 1.03.120; Adopted Res 2000-75, 12/13/2000; Amended Res 2003-34, 6/25/2003 Res 2008-62, 11/12/2008; Res 2014-07, 2/13/14; Res 2016-50, 11/9/16; Res 2018-45, 10/24/18]

4.02.090 Unauthorized Investments

A) Any investment in a security not specifically listed as an Authorized and Suitable Investment above, but otherwise permitted by the Government Code, is prohibited without the prior approval of the City Council.

B) Section 53601.6 of the Government Code specifically disallows investments in inverse floaters, range notes, or interest- only strips that are derived from a pool of mortgages.

C) No direct investment shall be made in repurchase agreements, although it is recognized that they may be a component of a diversified professionally managed pool that is included in the portfolio.

D) As specified in California Government Code Section 53601, the investment of funds that mature in excess of five years are not generally allowed. Placement of such investments can only occur if the City Council expressly authorize the investment as part of a specific program; and the transaction cannot occur until three months have lapsed from the date of authorization is granted.

[*History:* Formerly § 1.03.125; Adopted Res. 2003-34, 6/25/03; Amended Res. 2011-05, 3/9/2011; Res 2013-23, 7/11/13; Res 2016-50, 11/9/16; Res 2018-45, 10/24/18]

4.02.100 Safekeeping and Custody

If purchases of securities are authorized as described in section 4.02.070(A)(B), then all security transactions entered into by the Town shall be conducted on a delivery versus payment (DVP) basis as evidenced by safekeeping receipts in the Town's name. The investment securities of the Town shall be held by a third-party custodian according to established safekeeping procedures, as established by the Town Treasurer.

[*History:* Formerly § 1.03.130; Adopted Res 2000-75, 12/13/2000; Amended by Res 2003-34, 6/25/03; Res 2013-23, 7/11/13; Res 2014-07, 2/13/14; Res 2016-50, 11/9/16; Res 2018-45, 10/24/18]

4.02.110 Ethics and Avoidance of Conflict of Interest

A) All participants in the investment process shall act as custodians of public funds. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of public trust.

B) In a diversified portfolio it must be recognized that occasional measured losses are inevitable, and must be considered in the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

C) Elected officials and employees of the Town involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions under the Political Reform Act and Government Code Section 1090 et seq. Elected officials and employees shall disclose to the City Manager any material interests in financial institutions that conduct business with the Town, and they shall further disclose any personal investment position or financial asset that could be related to the performance of the Town's investment program.

D) Elected officials and employees shall subordinate their personal investment transactions to those of the Town particularly with regard to the time of purchases and sales.

E) Any firm proposing to provide any type of investment service to the Town shall acknowledge their familiarity with the provisions of the Political Reform Act, Government Code Section 81000 et seq. and the provisions limiting contractual conflicts of interest under Government Code Section 1090 et seq. Any firm proposing to provide any type of investment service to the City shall also acknowledge their familiarity with and agree to abide by any Federal or State law, regulation, rule or policy pertaining to or limiting campaign contributions by such firms, their employees, spouses or agents.

F) All persons, firms, broker/ dealers, financial institutions and advisors providing investment services or bond issue assistance shall disclose to the Treasurer all fee sharing, fee-splitting and commission arrangements with other entities or persons prior to the Town agreeing to buy an investment or issue bonds.

[*History:* Formerly § 1.03.135; Adopted Res 2013-23, 7/11/13; Res 2014-07, 2/13/14; Res 2016-50, 11/9/16; Res 2018-45, 10/24/18]

4.02.120 Authorized Financial Dealers and Institutions

If authorized to purchase securities as described in 4.02.070(A)(B), the Treasurer shall direct Staff to create and maintain a list of approved security broker/dealers selected for credit worthiness who are authorized to provide investment services in the State of California as authorized by California Government Code Section 53601.5. These may include primary dealers or such dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule) and that meet the standards used in evaluating broker/dealers and banks in the Town's Request for Information form. No public deposit shall be made except in a qualified public depository as established under State Statute.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must complete the Request for Information form, provide written certification of having read and agreed to abide by the Town's Investment Policy and depository contracts and provide the following information:

- Audited financial statements, proof of State registration and trading resolution.
- Proof of National Association of Securities Dealers (NASD) certification.

The Town Treasurer, or designees, shall consider the credit worthiness of institutions. The following guidelines are recommended:

- Institution to be located in California, with total assets of at least $100 million.
- Net worth of at least 3% of assets and profitable in most recent financial statement.
- Foreclosure/delinquencies at or below 2% of assets and in business for 5 years.
- Meet federal regulatory capital requirements.

A competitive bid process will be used to place investment purchases based upon investment offerings provided by the Town's list of authorized investment brokers. An annual review of the financial condition and registrations of qualified bidders may be conducted by the Town Treasurer or designee. As part of any review performed, a current audited financial statement will be obtained for those financial institutions and brokers/dealers subject to review.

The first $250,000 of any monies deposited with a bank or credit union must be guaranteed by the Federal Deposit Insurance Corporation (FDIC), the Federal Savings and Loan Insurance Corporation (FSLIC) or the National Credit Union Share Insurance Fund (NCUSIF). Banks, savings and loan associations, and credit unions must be able to collateralize any deposits over $250,000 (see Section 4.02.150).

[*History:* Formerly § 1.03.135; Adopted Res 2011-05, 3/9/2011; Res 2013-23, 7/11/13; Res 2016-50, 11/9/16; Res 2018-45, 10/24/18]

4.02.130 Collateralization

Bank Deposits: Under provisions of the Government Code, California banks and savings and loan associations are required to secure the Town's deposits by pledging government securities as collateral.

Certificates of Deposit (non-Negotiable): The City Treasurer, at his/her discretion may waive the collateral requirement for deposits up to the maximum dollar amount which are covered by the Federal Deposit Insurance Corporation or National Credit Union Share Insurance Fund.

Collateral pledged with a U.S. Treasury Bill or Note must be at least 110% of the face value of the investment. Collateral pledged with first mortgages must be at least 150% of the face value of the investment. The right of collateral substitution may be granted by the Town.

Collateral will always be held by an independent third party with whom the financial institution has a current custodial agreement. These parties are limited to only those trust companies and trust departments, or the Federal Home Loan Bank of San Francisco, which have been approved by the California State Superintendent of Banks. [California Government Code Section 53656(b)]

[*History:* Formerly § 1.03.140; Adopted Res 2000-75, 12/13/2000; Amended Res 2011-05, 3/9/2011; Res 2014-07, 2/13/14; Res 2016-50, 11/9/16; Res 2018-45, 10/24/18; Res 2019-40, 7/24/19]

4.02.140 Review and Reporting on Investments

The Treasurer shall prepare a report to the City Council not less than semi-annually which, will be made available each year within 60 days following December 31st and June 30th. The semi-annual report shall be presented at a subsequent regularly scheduled City Council Meeting. The report shall inclusive a monthly listing of investment transactions. At a minimum the report shall include the following information based on the type of investments held in the portfolio:

A) Report Contents when Portfolio is Limited to Bank and Public Agency Investment Pool Accounts:

a. Report the beginning and ending balance by quarter;

b. Provide a separate breakdown of the quarterly balance based on the Investment Pool (LAIF, SMCIF, etc).

c. Provide net Deposits and Withdrawals for the period

d. Identify total interest for the quarter.

e. Provide the interest rates earned including a cumulative weighted average.

B) Additional Report Contents When Portfolio Includes Securities Authorized Under Section 4.02.070 of this Policy:

a. Type of Investment
b. Issuer
c. Purchase Date
d. Date of Maturity (Call Date if Applicable)
e. Par and dollar amount invested
f. Effective interest rate
g. Current Market Value as of the date of the report
h. A list of investment transactions.
i. A statement of compliance with the investment policy
j. Portfolio earnings rate.

The report shall state compliance of the portfolio with the Town's investment policy, or the manner in which the portfolio is not in compliance.

The report shall include a statement denoting the ability of the Town to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

[*History:* Formerly § 1.03.150; Adopted Res 2000-75, 12/13/2000; Res 2014-07, 2/13/14; Res 2016-50, 11/9/16; Res 2018-45, 10/24/18]

4.02.150 Policy History and Annual Review

This policy and procedure amends and restates Section 4.02 of the Administrative Code previously adopted February 2014. This revised policy was adopted on November 9, 2016 (Resolution 2016-50) and on October 24, 2018 (Resolution 2018-45) by formal action of the City Council at its regular meeting. This policy is reviewed annually.

[*History:* Formerly § 1.03.160; Adopted Res 2000-75, 12/13/2000; Res 2014-07, 2/13/14; Res 2016-50, 11/9/16; Res 2018-45, 10/24/18; Res 2019-40, 7/24/19]

Division 3: Miscellaneous

4.02.160 Investment Policy Glossary

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

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BASIS POINT: One basis point is one hundredth of one percent (.01%)

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

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

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

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

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

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

CALL PRICE: The price at which an issuer may redeem a bond before maturity

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CDs are typically negotiable.

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

COMMERCIAL PAPER: Unsecured promissory notes issued to finance short term credit needs.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the Town. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

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

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

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

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

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

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

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

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

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

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

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

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC or Freddie Mac): United States government sponsored corporation.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

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

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHA mortgages. The term "pass- throughs" is often used to describe Ginnie Maes.

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

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

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

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

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

NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD): A self-regulatory organization (SRO) of brokers and dealers in the over the counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS (NSROs): Credit rating agencies whose ratings are permitted to be used for regulatory purposes such as those imposed by the Securities and Exchange Commission.

NEGOTIABLE CERTIFICATE OF DEPOSIT (NCD): A large denomination certificate of deposit which can be sold in the open market prior to maturity.

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

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

PORTFOLIO: Collection of securities held by an investor.

PREMIUM: The amount by which the price paid for a security exceeds the security's par value.

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

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

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

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

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Federal Reserve is said to be doing RP, it is lending money that is increasing bank reserves.

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

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

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

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

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

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

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

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

WEIGHTED AVERAGE MATURITY (WAM): The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years

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

YIELD CURVE: The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.

ZERO COUPON SECURITY: A security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

[*History:* Formerly § 1.03.170; Adopted Res 2000-75, 12/13/2000; Amended Res 2003-34, 6/25/2003; Res 2011-05, 3/9/2011; Res 2013-23, 7/11/13; Res 2014-07, 2/13/14; Res 2016-50, 11/9/16; Res 2018-45, 10/24/18]

[*Reference:* Gov't Code § 53601]