Investment Policy

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1.0 Purpose

It is the purpose of the City's investment policy to establish strategies, practices and procedures to be used in investing public funds in a prudent manner, which will provide the maximum security while meeting daily cash flow needs and conforming to all statutes governing the investment of public funds.

Secondly, this document will identify policies that enhance opportunities for a prudent and systematic investment of public funds. This policy is intended to guide the investment of City funds toward the goals of safety, liquidity and yield.

2.0 Policy

It is the policy of the City of Santa Paula, hereafter referred to as the "City", to invest public funds not required for immediate day-to-day operations, also referred to as idle funds, in safe and liquid investments having acceptable rates of return while conforming to all state statutes and this City's Investment Policy.

California Government Code Section 53646 (a)(2) states that the City Treasurer may annually submit an investment policy to the City Council for consideration at a public meeting. This investment policy conforms to all pertinent existing laws of the State of California, including California Government Code Sections 53600 et seq. Any conflict between this City Investment Policy and California Government Code Section 53600 et. seq., shall be interpreted in favor of the California Government Code.

3.0 Scope

This investment policy applies to all financial assets and investment activities of the City. These funds are reflected in the City's audited Comprehensive Annual Financial Report (CAFR). If the City invests funds on behalf of another agency and, if that agency does not have its own policy, the City's investment policy shall govern the agency's investments. Any additional funds that may be created from time to time shall also be administered within the provisions of this policy and comply with the California State Government Code. This policy covers the investment activities of idle funds under the direct authority of the City.

3.1 Funds Included by this Policy

- General Fund
- Enterprise Funds
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Fiduciary Funds

3.2 Pooling of Funds

Except for cash in funds prohibited from pooling as described in Section 3.3, the City shall consolidate cash balances from all funds to maximize investment earnings. Investment income shall be allocated to various funds in accordance with generally accepted accounting principles.

3.3 Investments Held Separately

In some instances, investments cannot be included in the City's investment pool. These may include investments of bond proceeds. In such cases the funds will be held separately when required by law, contract or other authority.

4.0 Prudence

The City Treasurer is authorized to make investment decisions on behalf of the City investing public funds subject to the prudent investment standard. The Prudent Investor Standard of the California Government Code Section 53600.3 states, "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 need of the [City], that a prudent person in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the [City]". The standard of prudence to be used by investment officials shall be applied in the context of managing the overall portfolio.

Trustees are those persons authorized to make investment decisions on behalf of a local agency. Trustees or City investment officials, acting in accordance with written procedures, the investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk changes or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

5.0 Objectives

Section 53600.5 of the California Government Code outlines the primary objectives of a trustee investing public money. The primary objectives, in order of priority, of the City's investment activities shall be:

5.1 Safety

Safety of principal is the foremost objective of the investment program. Investments by the City shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio and reduce both credit and market risk. The type of investment instruments and diversification of investments are critical components to ensuring investment portfolio safety.

5.2 Liquidity

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. Liquidity also refers to the ability to convert an investment to cash without loss of principal and minimal loss of interest.

5.3 Yield (Return on Investment)

The City's investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. These measurements should be commensurate with the City's investment risk constraints identified in the Investment Policy and the cash flow characteristics of the portfolio. Return on investment becomes a consideration only after the basic requirements of safety and liquidity have been met.

The City Treasurer shall strive to maintain the level of investment of all idle funds as close to 100% as possible. While the objectives of safety and liquidity must first be met, it is recognized that investment assets represent a potential source of significant revenues. It is to the benefit of the City that these assets be managed to produce optimum revenues consistent with State statutes and local policies.

6.0 Delegation of Authority

Authority to manage the City's investment program is derived from the California Government Code Sections 53600 through 53609. The management of idle cash and the investment of funds identified in paragraph 3.1 is the responsibility of the City Treasurer (Treasurer). The Treasurer may be elected or appointed by the City Council. Management responsibility for the investment program is hereby delegated to the Treasurer as directed by the City Council. Under this authority granted by the City Council, no person may engage in an investment transaction covered by the terms of this policy unless directed by the Treasurer.

In the execution of this delegated authority, the Treasurer may establish accounts with qualified financial institutions and brokers/dealers for the purpose of effecting investment transactions in accordance with this policy.

Transactions, including wiring instructions, must be identified in advance and approved in writing by the Treasurer or designee. All investment transactions in excess of $250,000 (except for deposits or withdrawals from the Local Agency Investment Fund, Ventura County Investment Pool or Other Pools) shall also require the signature of the City Manager or his/her designee.

The City Council may renew the authority annually and may revoke the authority at any time.

7.0 Ethics and Conflicts of Interest

All participants in the City's investment process shall act responsibly as custodians of the public trust. Elected officials and employees 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 or create the appearance of an impairment of their ability to make impartial investment recommendations and decisions. Investment officials and employees shall make all disclosures appropriate under the Fair Political Practices Act and shall seek and follow the advice of the City Attorney and the Fair Political Practices Commission whenever there is a question of personal, financial or investment positions that could represent potential conflicts of interest.

8.0 Authorized Financial Institutions and Broker/Dealers

Investments shall be purchased only through well-established, financially sound institutions. All financial institutions and broker/dealers who desire to become qualified vendors for investment transactions will be given a copy of the City's investment policy and certification form. The completion and submission of the certification form by a broker-dealer or financial institution shall constitute proof that it has received the City’s Statement of Investment Policy, read it, and intends to comply with it. Qualified financial institutions and Broker/dealers must provide current audited financial statements and meet the applicable criteria established in Sections 8.1 or 8.2 of this policy.

8.1 Authorized Financial Institutions

The City shall only deposit public monies in financial institutions that have: (1) at least $500 million in total assets; (2) a core capital-to-total assets ratio of at least five percent; (3) favorable ratings from a recognized financial institution rating service, as determined by the City Treasurer; (4) a federal or a state charter; or are eligible institutions per the California Government Code and (5) a branch office within Ventura County, and/or a 50 mile radius of the City.

Under no circumstances shall the City's deposits in a financial institution exceed the total shareholders' equity of that institution.

8.2 Authorized Broker/Dealers

The City will only utilize investment services of financial institutions and security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of California. These may include primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform new capital rule).

All financial institutions and broker-dealers for investment transactions must supply the following to the City as appropriate:

- Current audited financial statements
- Proof of Financial Industry Regulatory Authority (FINRA) certification,
- Proof of State of California registration
- Trading resolution
- Completed City of Santa Paula broker-dealer questionnaire, which contains a certification of having read, understood and agreeing to comply with the City's Investment Policy and depository contracts

9.0 Authorized and Suitable Investments

All investments and deposits of the City shall be made in accordance with California Government Code, Sections 16429.1, 53600-53609, and 53630-53686 et seq., and as further limited in this policy.

The City is empowered by statute to invest in the following types of securities:

9.1 Authorized Investment Types

9.1.1 California State Treasurer's Local Agency Investment Fund (LAIF) as authorized by Gov. Code Section 16429.1(b).

9.1.2 Ventura County Investment Pool — Ventura County Treasurer's Investment Pool as authorized by Gov. Code Section 53684.

9.1.3 Other Pools — Shares of beneficial interest issued by a joint powers authority organized in the State of California pursuant to Gov. Code Section 6509.7 that invests in the securities and obligations authorized in Gov. Code Section 53601 subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. Purchases are limited to those pools that seek to maintain a constant net asset value and are rated in the highest category by a nationally recognized statistical-rating organization (NRSRO). To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria: (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission; (2) the adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive, of [Gov. Code] section 53601; and (3) the adviser has assets under management in excess of five hundred million dollars ($500,000,000). Gov. Code § 6509.7(a).

9.1.4 U.S. Government — United States Treasury bills, notes, & bonds, or certificates of indebtedness, or those for which the full faith and credit of the United States Government are pledged for the payment of principal and interest.

9.1.5 U.S. Agencies — Federal agency or United States government senior debt- 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.

9.1.6 State Municipal Securities — Registered treasury notes or bonds issued by any of the 50 United States, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any state. Securities eligible for investment under this paragraph shall be rated in the rating category of at least “AA” or “A-1” (for short-term securities), their respective equivalents, or higher by a NRSRO.

9.1.7 California Local Agency Municipal Securities — Bonds, notes, warrants or other evidence of debt issued by a local agency or municipality located within the State of California, including debt securities issued by the City. Securities eligible for investment under this paragraph shall be rated in a rating categories at least “AA” or “A-1”, their respective equivalents, or higher by a NRSRO.

9.1.8 Non-Negotiable Certificates of Deposit (CDs) — Non-negotiable deposits in a state or national bank, savings association or federal association, federal or state credit union in the State of California as authorized by CGC Section 53652. In accordance with CGC

Section 53635.2, to be eligible to receive City deposits, a financial institution shall have received an overall rating of not less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California’s communities. CDs are required to be collateralized as specified under Gov. Code Section 53630 et seq. The Treasurer, at his/her discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance. Deposits in excess of the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA) insured shall be secured pursuant to California Government Code Section 53651 and 53652. The City shall have a signed agreement with any depository accepting City funds per Gov. Code Section 53649. In accordance with CGC Section 53638, any deposit shall not exceed that total shareholder’s equity of any depository bank, nor shall the deposit exceed the total net worth of any institution. A maximum of 20 percent of the City’s portfolio may be invested in CDs.

9.1.9 Negotiable Certificates of Deposit – Negotiable CDs issued by a nationally or state chartered bank or a state or federal savings and loan association, a state or federal credit union, or by a federally- or state-licensed branch of a foreign bank. Negotiable CDs issued with maturities in excess of one year must be rated in a rating category of “A”, the equivalent or higher by a NRSRO. Negotiable CDs with maturities under one year must be rated in a rating category of “A-1,” the equivalent, or higher by a NRSRO. Purchases of negotiable CDs may not exceed 30 percent (in combination with CDs purchased through a deposit placement service) of the City's portfolio.

9.1.10 Placement Service Deposits — The City may deposit a portion of its funds with commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of federally insured deposits. The selected depository for placement services must be: a nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union in California. Further, the selected depository institution may submit the funds to a private sector entity that assists in the placement of certificates of deposit with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States, for the City’s account. The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by the

FDIC or the NCUA. The selected depository institution shall serve as a custodian for each certificate of deposit that is issued with the placement service for the City's account. Purchases of placement service deposits may not exceed 30 percent (in combination with negotiable CDs) of the City's portfolio.

9.1.11 Medium-Term Corporate Notes — Medium term notes issued by corporations 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 that are rated in a rating category of "AA", the equivalent or higher by a NRSRO and issued by an issuer rated at least "A" or the equivalent by an NRSRO. Purchases of medium term notes may not exceed 30 percent of the City's portfolio.

9.1.12 Asset-Backed Security – Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment leaseback certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond. Eligible securities must be rated in a rating category, by a NRSRO, of "AA", the equivalent or higher, and the issuer of the security must be rated in a rating category of "A", the equivalent or higher rating for its debt as provided by a NRSRO. No more than 20 percent of the City's portfolio may be invested in this type of security.

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

1. The entity meets the following criteria: (A) is organized and operating in the United States as a general corporation. (B) has total assets in excess of five hundred million dollars ($500,000,000). (C) has debt other than commercial paper, if any, that is rated in a rating category of "A", the equivalent or higher by a NRSRO.

2. The entity meets the following criteria: (a) is organized within the United States as a special purpose corporation, trust, or limited liability company. (b) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (c) Has commercial paper that is

rated in a rating category of “A-1” or the equivalent or higher by a NRSRO.

Eligible commercial paper shall have a maximum maturity of 270 days or less. No more than 25 percent of the City’s portfolio may be invested in eligible commercial paper, and the City may purchase no more than 10 percent of the outstanding commercial paper of any single issuer.

9.1.14 Bankers’ Acceptances — Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances. Eligible bankers' acceptances are restricted to issuing financial institutions with short-term paper rated in the highest category by a NRSRO. Purchases of bankers' acceptances shall have a maximum maturity of 180 days or less, and no more than 40 percent of the City's portfolio.

9.1.15 Money Market and Mutual 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-1 et seq.). Such funds must carry the highest rating of at least two of the three largest national rating agencies. All such investments shall be placed only in money market or mutual funds intended to maintain constant net asset value and that invest solely in U.S. Treasuries and Federal Agency obligations and repurchase agreements invested in such obligations. Investment in Money Market or Mutual Funds shall not exceed 20% of the portfolio or more than 10 percent in any one fund.

9.1.16 Sweep account for the investment of overnight funds when the funds are swept into investments authorized by this policy.

9.1.17 Passbook accounts maintained solely to provide for ongoing operational needs shall be subject to the requirements of this policy.

9.1.18 Bonds, notes, or other forms of indebtedness issued by the City, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the City or by a department, board, agency, or authority of the local agency.

9.2 Unauthorized Investments

Investments not specifically authorized herein are disallowed. Additionally, Section 53601.6 of the California Government Code disallows the following: inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages. Futures, options, all leveraged purchases, reverse repurchases, and speculations on interest rates are specifically not allowed by this policy.

10.0 Collateralization

Investments in certificates of deposit, sweep accounts and passport accounts shall be fully insured up to the limit set by the Federal Deposit Insurance Corporation or National Credit Union Administration. Investments in certificates of deposit, sweep accounts and passport accounts in excess of the FDIC or NCUA limit shall be properly collateralized as required by law.

11.0 Safekeeping and Custody

All security transactions entered by the City shall be conducted on a delivery-vs.-payment (DVP) basis. Securities owned by the City, (except the collateral for certificates of deposit in banks and/or savings and loans) shall be held by a third-party custodian/safekeeping account designated by the City Treasurer and evidenced by safekeeping receipts. Said securities shall be held in a manner that establishes the City's right of ownership. The only exception to the foregoing shall be depository accounts and security purchases made with: LAIF, time certificates of deposit and money market mutual funds held directly with issuing institution, since the purchased securities are not deliverable.

The third-party custodian/safekeeping account shall annually provide a copy of their most recent report of internal controls and provide periodic statements of the securities owned by the City listing the specific instrument, rate, maturity and other pertinent information.

12.0 Diversification

The City recognizes that investment risks can result from the issuer defaults, market price changes, or various technical complications leading to temporary liquidity. To minimize the City's exposure to these types of risk, the portfolio should be diversified among several types of institutions, instruments, and maturities. The Treasurer shall minimize default risk by prudently selecting only instruments and institutions, which at the time of placement have been evaluated for their financial viability and compliance with this policy. No individual transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

The portfolio instrument composition shall be diversified to the extent feasible to avoid incurring unreasonable and avoidable risks regarding specific security types indicated in Section 9 of this investment policy. No more than ten percent (10%) of the value of the City's portfolio will be placed with any single issuer, except for the U.S. Treasury/Federal agency securities, authorized pools, and collateralized investments.

13.0 Maximum Maturities

To the extent possible, the Treasurer will attempt to match investments with anticipated cash flow requirements and investments shall have a maturity no more than five (5) years from the date of purchase.

For the purpose of these investments, the compliance with the investment percentage(s), in regards to the total investment portfolio, shall be calculated on the date the investment is acquired. If the percentage is legally compliant on the date of purchase, then compliance with the law shall have been met.

14.0 Internal Control

The City Treasurer shall establish and maintain a system of appropriate internal controls to ensure compliance with policies and procedures. The controls should be designed to prevent losses of public funds arising from fraud, error, or imprudent actions by employees and officers of the City. The following procedures shall generally be followed:

- Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction.
- Timely bank reconciliation is conducted to ensure proper handling of all transactions
- The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Finance Department at a minimum on a quarterly basis.

15.0 Performance Standards

15.1 Investment Strategy

The City's overall investment strategy is passive. The City intends to hold its investments to maturity and will therefore generally follow buy and hold strategy. A buy and hold strategy requires that the portfolio be kept sufficiently liquid to preclude the undesirable sale of investments prior to maturity. Occasionally, the City Treasurer may find it advantageous to sell an investment prior to maturity, such as when the return for an alternative investment would significantly exceed the loss on the current investment. The sale of investments prior to maturity should be only on an exception basis and only when it is clearly favorable to do so. To further provide for liquidity, investments will be made only in readily marketable securities actively traded in the secondary market.

15.2 Benchmark

The City shall use the LAIF apportionment rate and the 2-year U.S. Treasury Note as useful benchmarks to measure whether or not the City's portfolio net yields are matching or surpassing the market yields. The benchmarks and investment performance will be reviewed by the Treasurer and City Manager as market conditions warrant or when the benchmarks are not met for a consecutive one-year period.

16.0 Investment Reporting

As suggested in California Government Code Section 53607, the investment report shall be submitted to the City Council on a quarterly basis by the Treasurer. The Treasurer shall review and render monthly and quarterly investment reports and include the following:

- The monthly report shall include an accounting of all receipts, disbursements and fund balances.
- The quarterly report shall include an itemized listing of portfolio investments by type, date of maturity, yield to maturity, issuer, par value, dollar amount invested, book value and current market value if applicable. The source of the market values will be cited.
- The quarterly report will include a statement of compliance of the portfolio with the City's investment policy or an explanation as to why the portfolio is not in compliance per California Government Code Section 53646(b)(2).
- The quarterly report shall include a statement of compliance that the investment portfolio has the ability to meet the City's expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available, per California Government Code Section 53646 (b)(3).

17.0 Investment Policy Adoption

The City's investment policy shall be adopted by resolution by the City Council. The policy may be reviewed annually by the City Council and any modifications to the investment policy must be approved by the City Council.

18.0 Exceptions

Occasionally, exceptions to some of the requirements specified in this investment policy may occur for pooled investments because of events subsequent to the purchase of investment instruments. State law is silent as to how exceptions should be corrected. Exceptions may be temporary or more lasting; they may be self-correcting or require specific action. If specific action is required, the Treasurer should determine the course of action that would correct exceptions to move the portfolio into compliance with State law and City policy. Disclosure of exceptions lasting more than 183 days shall be done in the quarterly investment report immediately following the 183 days. Decisions to correct exceptions should not expose the assets of the portfolio to undue risk and should not impair the meeting of financial obligations as they fall due. Any subsequent investments should not extend existing exceptions.

19.0 Glossary

Asset-Backed Securities (ABS): Securities whose income payments and hence value is derived from and collateralized (or "backed") by a specified pool of underlying assets which are receivables. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can comprise common payments credit cards, auto loans, mortgage loans, and other types of assets. Interest and principal is paid to investors from borrowers who are paying down their debt.

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.

Bond Indenture (or Trust Indenture): Written agreement specifying the terms and conditions for issuing bonds, stating the form of the bond being offered for sale, interest to be paid, the maturity date, call provisions and protective covenants, if any, collateral pledged, the repayment schedule, and other terms. It describes the legal obligations of a bond issuer and the powers of the bond trustee, who has the responsibility for ensuring that interest payments are made to registered bondholders.

Broker-Dealer: A person or a firm who can act as a broker or a dealer depending on the transaction. A broker brings buyers and sellers together for a commission. They do not take a position. A dealer acts as a principal in all transactions, buying and selling for his own account.

Buy and Hold Strategy: Investments in which management has the positive intent and ability to hold each issue until maturity.

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

City Treasurer: The City Treasurer is elected through 2020 and appointed by the City Manager beginning in 2021.

Collateralization: To secure a debt in part or in full by pledge of collateral, asset pledged as security to ensure payment or performance of an obligation. Also refers to securities pledged by a bank to secure deposits of public monies.

Current Yield: The interest paid on an investment expressed as a percentage of the current price of the security.

Custody: Safekeeping services offered by a bank, financial institution or trust company, referred to as the "custodian." Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement and market values.

Delivery versus Payment: A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or custodian. It ensures that securities are deposited in an eligible financial institution prior to the release of funds.

Disallowed Investments: Prohibited investments include any investments not specifically authorized within this policy, inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages; futures, option, all leveraged purchases, reverse repurchases, and speculations on interest rates.

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

Duration: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates means falling bond prices, while declining interest rates mean rising bond prices.

Federal Agency Obligation: A debt instrument issued by one of the federal agencies. Federal agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

Federal Deposit Insurance Corporation (FDIC): The federal agency that insures bank deposits up to $250,000 per deposit at participating banking institutions. To increase consumer confidence in the banking system, the previous $100,000 insurance limit was temporarily increased to $250,000 in 2008, extended to 2013, and then permanently increased on July 21, 2010 with the passage of the Wall Street Reform and Consumer Protection Act.

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

Fiduciary Funds: Funds held in a trustee or agency capacity for outside parties.

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

Liquidity: Refers to the ability to rapidly convert an investment into cash without a substantial loss of value.

Laddered Portfolio: Bond investment portfolio with securities in each maturity range (e.g. monthly) over a specified period (e.g. five years).

Leverage: Investing with borrowed money with the exception that the interest earned on the investment will exceed the interest paid on the borrowed money.

Local Agency Investment Fund (LAIF): A voluntary investment program offering participating agencies the opportunity to participate in a major portfolio which daily invests hundreds of millions of dollars, using the investment expertise of the State Treasurer's Office investment staff at no additional cost to the taxpayer. Investment in LAIF, considered a short-term investment, is readily available for cash withdrawal daily.

Market Risk: Defined as market value fluctuations due to overall changes in the general level of interest rates. Adverse fluctuation possibilities shall be mitigated by limiting the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis, and eliminating the need to sell securities prior to maturity. Also, avoiding the purchase of long-term securities for the sole purpose of short-term speculation mitigates market risk.

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

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

Money Market Fund: A type of safe investment comprising a variety of short-term securities with high quality and high liquidity. The fund provides interest to shareholders and must maintain a stable net asset value (NAV) of $1 per share.

National Credit Union Administration (NCUA): An independent federal agency that insures deposits at federally insured credit unions, currently up to $250,000.

Negotiable Certificates of Deposit: Typically large-denomination Certificates of Deposit that can be transferred, bought, sold, or exchanged.

Nominee: Registered owner of a stock or bond if difference from the beneficial owner, who acts as holder of record for securities and other assets. Typically, this arrangement is done to facilitate the transfer of securities when it is inconvenient to obtain the signature of the real owner, or the actual owner may not wish to be identified. Nominee ownership simplifies the registration and transfer of securities.

Non-Negotiable Certificates of Deposit: Certificates of Deposit that cannot be transferred, bought, sold, or exchanged.

Pooled Investments: Grouping of resources for the advantage of the participants.

Principal: The original cost of a security. It represents the amount of capital or money that the investor pays for the investment.

Portfolio: Collection of securities held by an investor.

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

Prime Commercial Paper: Short-term IOU, or unsecured money market obligation, issued by prime rated commercial firms and financial companies, with maturities from 2 days up to 270 days. A promissory note of the issuer used to finance current obligations and is a negotiable instrument.

Principal: (1) The face amount of par value of a debt instrument. (2) One who acts as a dealer buying or selling for his own account.

Prudent Investor Standard: An investment standard that all investments should be made 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.

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 vault for protection.

Secondary Market: A market is made for the purchase and sale of outstanding issues following the initial distribution.

Sweep Account: Short-term income fund into which all un-invested cash balances from the non-interest-bearing checking account are automatically transferred daily.

Third-Party Custodian: Corporate agent, usually a commercial bank, who, acting as trustee, holds securities under a written agreement for a corporate client and buys and sells securities when instructed. Custody service includes securities safekeeping, and collection of dividends and interest. The bank acts only as a transfer agent and makes no buy-sell recommendations.

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 of from two to 10 years.

Trustee: (1) All governing bodies of local agencies or persons authorized (city investment officials) to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. (2) A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

U.S. Agencies: Federal agency securities and/or Government-sponsored enterprises.

U.S. Government Securities: Securities issued by the U.S. Government and its agencies which are either directly or indirectly backed by the full faith and credit of the United States. U.S. Government securities include Treasury Bills, Notes and Bonds. Agency securities include those issued by the Federal National Mortgage Association, Federal Home Loan Bank, and similar agencies.

Yield to Maturity: The rate of annual income return on an investment expressed as a percentage, adjusted for any discounts, and spread over the period from the date of purchase to the date of maturity.