RESOLUTION R15-21

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALOS VERDES ESTATES, CALIFORNIA ADOPTING AN INVESTMENT POLICY FOR FISCAL YEAR 2015-16

WHEREAS, it is the policy of the City Council of the City of Palos Verdes Estates ("City Council") to invest public funds in a manner that will provide maximum security, adequate liquidity and sufficient yield, while meeting the daily cash flow demands of the City and conforming to all statutes and regulations governing the investment of public funds; and

WHEREAS, Section 53600.5 of the California Government Code Section states when investing and managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control; and

WHEREAS, the secondary objective of Section 53600.5 is the requirement to meet the liquidity needs of the depositor; and

WHEREAS, the third objective of Section 53600.5 is to achieve a return on the funds under its control; and

WHEREAS, Section 3 of the City's policy clearly specifies the three primary objectives of the City's investment activities as safety, liquidity and yield, in that order of priority; and

WHEREAS, in accordance with California Government Code Section 53646, the City Treasurer shall annually review and render to the City Council an investment policy; and

WHEREAS, the City Council finds that the City of Palos Verdes Estates Investment Policy, attached and referenced herein as "EXHIBIT A", complies with California Government Code Sections 53600 et seq., which governs investment practices of local governments.

WHEREAS, per the June 2014 policy update, Resolution R94-22 and all written updates up to that action were rescinded, and

NOW, THEREFORE, the City Council of the City of Palos Verdes Estates, California hereby resolves as follows:

SECTION 1. The City of Palos Verdes Estates Investment Policy, attached and referenced herein as "EXHIBIT A," as recommended by the City Treasurer, is hereby adopted for FY 15-16.

RESOLUTION R15-21

SECTION 2. That the City Clerk shall certify to the passage and adoption of this resolution.

PASSED, APPROVED AND ADOPTED on this 9th day of June, 2015.

James F. Goodhart, Mayor

ATTEST:

Vickie Kroneberger, City Clerk

APPROVED AS TO FORM:

Christi Hogin, City Attorney

RESOLUTION R15-21
EXHIBIT A

City of Palos Verdes Estates

Investment Policy

Fiscal Year 2015-16

Adopted June 9, 2015

1. Purpose

The purpose of the investment policy is to establish investment objectives, strategies, practices, and procedures to be used in administering the City of Palos Verdes Estates portfolio. The goal is to establish guidelines with a focus on principal preservation and liquidity, to ensure that public funds are invested securely, prudently and efficiently while also complying with the legal requirements of governing California Government Code Sections 53600 through 53659. This policy shall be adopted and reaffirmed by City Council on an annual basis.

2. Scope

This investment policy shall apply to all financial assets managed by the City of Palos Verdes Estates, including, but not limited to:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Debt Service Funds
- Enterprise Funds
- Internal Service Funds
- Any new fund created by the City Council unless specifically exempted with the exception of the following:
    - The City's Deferred Compensation Plan which is controlled by federal law, specific provisions of the City's adopted Plan, and individual employee decisions.
    - The City Employee Retirement Plan which is subject to regulation by federal and state laws.
- Any investments held by third-party trustees subject to prior written consent and approval by the City Treasurer and City Manager. Should these funds be exempted from this policy, the trustee is still subject to regulations established by the State of California pertaining to the investments by local agencies as well as the related bond indentures.

3. Investment Objectives

The City's primary investment objective is the preservation of principal and liquid asset resources. Secondarily, the City strives to achieve a reasonable rate of return on public funds while minimizing the potential for capital losses arising from market changes or issuer default. Thus, the City's investment orientation is to avoid exposure to unacceptable levels of risk.

In determining individual investment placements, the following factors shall be considered in priority order: safety, liquidity, and yield.

A. Safety. Preservation of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital. The objective is to mitigate credit risk and interest rate risk as summarized below.

Credit Risk – This is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:

- Limiting investment to the safest types of securities;
- Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisers with which the City will do business with and ensuring competitive security purchase pricing
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- To avoid concentrating investments in any one specific security type or class or in any one financial institution

Interest Rate Risk – This is the risk that the market value of securities in the portfolio will fall due to changes in the general interest rates. Interest rate risk may be mitigated by:

- Structuring the investment portfolio such that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity;
- Investing operating funds in shorter-term securities, money market mutual funds, or similar investment pools.

Market Risk - The risk of market value fluctuations arising from overall changes in the general level of interest rates shall be mitigated through maintaining prudent duration levels, staggering investment maturity dates evenly over a desired overall duration target and ***prohibiting*** the taking of short positions (selling securities that the City does not own) and interest rate sensitive derivative instruments. It is recognized herein, however, that in a diversified portfolio measured losses can occur, under certain rare conditions, within the context of the overall portfolio's investment return and with suitable analysis.

B. Liquidity. The investment portfolio shall remain sufficiently liquid to meet all operating requirements. This is accomplished by structuring the portfolio so that securities mature concurrent with the cash needs to meet anticipated operational demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in money market mutual funds or local government investment pools that offer same-day liquidity for short-term funds.

C. Yield. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into account the investment risk of constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. In so far as the City generally maintains a "Buy-and-hold" investment posture (one that avoids disposing of security positions prior to scheduled maturity) securities shall not be sold prior to maturity with the following exceptions:

- A declining credit security which could be sold early to minimize loss of principal;
- Liquidity needs of the portfolio that require the security be sold;
- A capital gain that would be realized to better position the overall portfolio to achieve investment policy goals.

4. Standards of Care

A. Prudent Investor Standard.

All persons involved in investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing the City's investment portfolio shall act with the care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the City, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the City.

It shall be recognized that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism worthy of the public trust.

B. Government Code. Government Code Sections 16481.2, 53601, 53635, and 53646 of the State of California regulate the investment policies of jurisdictions within the State. The City of Palos Verdes Estates will adhere to these core provisions in developing and implementing the City's investment policies and practices with the understanding that the City's investment policy can and may indeed be more restrictive in setting security investment limitations.

C. Ethics and Conflict Of Interest. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or could impair their ability to make impartial investment decisions. City employees involved in the investment process shall disclose to the City Manager any material financial interest in financial institutions that conduct business within the jurisdiction. They shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio. Officers shall refrain from undertaking any large personal investment transactions with the same individual with whom business is conducted on behalf of the City.

D. Delegation of Authority. Authority to manage the investment program is granted to the City Treasurer. Under the oversight of the City Treasurer, responsibility of the operation of the investment program may be delegated to the Financial Director or other staff who shall act in accordance with established written procedures and internal controls consistent with the investment policy.

E. Internal Control. The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. They should be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires

estimates and judgments by management.

Accordingly, the investment officer and city staff shall encourage review of investment policies and procedures. In addition, the city will require the auditors to perform cash and investment testing as part of the audit of the city's financial statements.

5. Safekeeping and Custody

A. Selection of Eligible Financial Institutions

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Proof of Financial Industry Regulatory Authority (FINRA) certification;
- Proof of state registration;
- Completed broker/dealer questionnaire;
- Certification of having read and understood and agreeing to comply with the City's investment policy.

These documents shall be provided annually as appropriate. In selecting financial institutions for deposit or investment of funds, the authorized Investment Officers shall consider the credit-worthiness of the institution.

B. Broker/Dealers

Investments must be purchased directly from the issuer, from an institution licensed by the State as a broker/dealer, from a member of a federally regulated securities exchange, or from a primary or regional dealer that qualifies under the Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule). Broker/dealers shall be selected by their experience in public agency investing and investment products and be very familiar with the California Government Code as related to investments for local governmental agencies.

The City Treasurer, in concert with City Staff, will maintain a file of broker/dealers with which the City is currently doing business which will include (at minimum) the firm name, contact person, telephone number, fax number, e-mail address, and annual audited financial statements. The selection of city engaged broker/dealers and/or investment management firms shall be by open and competitive request for service process. In the case of broker/dealers the use of a minimum of two brokers is preferred to ensure continuity and competitive product availability and pricing.

C. Delivery vs. Payment

All trades where applicable will be executed by delivery vs. payment to ensure that securities are deposited prior to the release of funds. To protect against potential losses by collapse of individual securities dealers, all securities owned by the City shall be held in safekeeping by a third party bank trust department acting as agent for the City under terms of a custody agreement executed between the bank and the City.

D. Custody - All investments shall have the City of Palos Verdes Estates as the registered

owner, and all interest and principal payments and withdrawals shall indicate the City as the payee.

All securities shall be safely kept with a qualified financial institution, contracted independently by the City as a third party. All securities shall be acquired by the safekeeping institution on a "delivery-vs.-payment" (DVP) basis. In other words, the security must be delivered before funds are released. The DVP basis for delivery applies also to the delivery and safekeeping of repurchase agreement collateral.

D. Collateralization

The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository Unregulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

6. Authorized Investments

Investment of City funds is governed by the California Government Code Sections 53600 et seq. Within the context of such limitations, the following investments are authorized:

Local Agency Investment Fund (LAIF) – As authorized in Government Code Section 16429.1, local agencies may invest in the Local Agency Investment Fund, a money market fund which allows local agencies to pool their investment resources. Current policies of LAIF set minimum and maximum amounts of monies that may be invested as well as maximum numbers of transactions that are allowed per month.

State of Ca	City
No term/ 100% of portfolio /Max $50 million	No term/ 100% of portfolio /Max $50 million

Money Market Mutual Funds - Mutual funds invested in U.S. Government securities are permitted under this policy and under the California Government Code Section 53601. In order to be eligible for investment under this section, an investment objective of such a fund must be the maintenance of a price per share of $1.00. The following criteria must also be met:

- The fund shall have a minimum of $500 million in total portfolio value.
- The fund shall be registered with the Securities and Exchange Commission, and shall have achieved a rating of Aaa by Moody's and AAA by S&P.
- The fund shall have retained an advisor which is registered with the SEC, or which is exempt from such registration, and has at least 5 years of experience managing money market funds, including those in excess of $500 million.
- Investment in such funds shall not exceed 20% of the City's total portfolio.

Los Angeles County Pooled Funds – As authorized in Government Code Section 53600, a pooled investment fund managed by the Los Angeles County Treasurer's Office, which operates like a money market fund for the exclusive benefit of governmental entities within Los Angeles County.

State of Ca	City
No term/ 20% of portfolio /10% per mutual fund issuer	No term/ 20% of portfolio /10% per mutual fund issuer

United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio which can be invested in this category.

State of Ca	City
5 Years/ 100% of Portfolio	5 Years/ 100% of Portfolio

Federal Agency Obligations – Obligations issued by the Federal government agencies or Government Sponsored Enterprises (GSE) such as Government National Mortgage Association (GNMA), the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Corporation (FHLMC). There is no percentage limitation of the portfolio which can be invested in this category.

State of Ca	City
5 Years/ 100% of Portfolio	5 Years/ 100% of Portfolio no more than 75% callable securities

Certificate of Deposit (CD) - (Non-Negotiable Bank Time Deposits) purchased through a bank or savings and loan association for a specified period of time at a specified rate of interest. Currently the first $250,000 of a certificate of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC).

State of Ca	City
5 Years/ 100% of Portfolio	5 Years/ 30% of Portfolio (for all CD Types) At or below the FDIC limit of $250,000

Negotiable Certificate of Deposit - Certificates of Deposit purchased through a broker dealer and placed on the open-market, for a specified period of time at a specified rate. Currently the first $250,000 of a certificate of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC).

State of Ca	City
5 Years/ 30% of Portfolio	5 Years/ 30% of Portfolio (for all CD Types) At or below the FDIC limit of $250,000

Banker' Acceptances – These are bills of exchange or time drafts drawn on and accepted by commercial banks. Purchase of banker's acceptances may not exceed 180 days maturity and 40% of the cost value of the portfolio. Furthermore, no more than $5 million or 10% of the cost value of the portfolio, whichever is less, may be invested in the banker's acceptances of any one commercial bank.

State of Ca	City
180 Days – 40% of Portfolio -30% per issuer – Max $5 million, AAA	180 Days – 15% of Portfolio -30% per issuer – Max $5 million, AAA I recommend 20% and a minimum credit rating of A1

Commercial Paper – Commercial paper must be rated P1 by Moody's Investor's Service and A1 by Standard and Poor's, issued by domestic corporations having assets in excess of $500,000,000 and having a AA or better rating on its long term debentures as provided by Moody's and Standard and Poor's. Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 15% of the cost value of the portfolio.

State of Ca	City
270 days, 25% of portfolio, 10% per issuer, AA	270 days, 15% of portfolio, 10% per issuer, AA

Medium Term Corporate Notes with a maximum maturity of five years may be purchased. Securities eligible for investment shall be rated AA or better by Moody's and Standard & Poor's rating services. Purchase of medium term notes may not exceed 30% of the cost value of the portfolio and no more than 10% of the cost value of the portfolio may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 10% limitation.

State of Ca	City
5 Years, 30% of Portfolio, A	2 Years, 15% of Portfolio, AA Major US owned Ca. Institutions

Repurchase Agreements (REPOs) - A contractual arrangement between a financial institution, or dealer, and an investor. This agreement normally can run for one or more days. The investor puts up his funds for a certain number of days at a stated yield. In return, he takes a given block of securities as collateral. At maturity, the securities are repurchased and the funds repaid plus interest. The market value of the securities used as collateral for the repurchase agreement shall be monitored and not allowed to fall below 102% of the value of the repurchase agreement. A Master Repurchase agreement is required between the City and the financial institution for all repurchase agreements transacted. Maximum maturity is one year.

State of Ca	City
1 Year, 100% of Portfolio, 102% Collateral	180 days, 15% of Portfolio, 10% per issuer Major US owned Ca. Institutions

Ineligible Investments - Ineligible investments are those that are not described herein, including but not limited to, common stocks, reverse repurchase agreements, inverse floaters, range notes, mortgage derived interest only strips, derivatives securities, or any security that could result in zero interest accrual.

7. Prohibited Investment Instruments

Investment of the City's investment portfolio in any of the following identified instruments is specifically prohibited:

- **Reverse Repurchase Agreements** - Differs from a Repurchase Agreement in the sense that a reverse repurchase agreement is one that sells security positions in return for cash with an agreement to repurchase the securities for an agreed upon price.
- **Negotiable Certificates of Deposits (Over $250,000 FDIC Limits) -** These are issued by nationally or state chartered banks, state or federal savings institutions, or state licensed branches of foreign banks and traded in the open-market as purchased through broker/dealers.
- **Derivatives** - Financial instruments whose values are based on or determined by another security, financial instrument or index. Also known as "Structured Notes"
- **California State and Local Agency Obligations** - Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency or by a department, board, agency or authority of the state or any local agency.
- **Other State Obligations** - Registered debt obligations of any of the other 49 United States beyond 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.
- **Prohibited Investments Cited in California Government Code Section 53601.6 including, but not limited to:**
    - Inverse Floaters
    - Range Notes
    - Mortgage Derivatives or other similar asset backed securities
    - Interest Only Strips
    - Zero Interest Coupon Securities

8. Investment Parameters

A. Diversification

Investments shall be diversified by:

- Limiting investments to avoid concentration in securities from a specific issuer or business center (excluding Local Agency Investment Fund and U.S. Treasury securities);
- Limiting investment in securities that have higher credit risks;
- Investing in securities with varying maturities; and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LAIF), or money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

B. Maximum Maturities

In order to minimize the impact of market risk, it is intended that all investments will be held to maturity. Investments may be sold prior to maturity for cash flow, appreciation purposes or in order to limit losses, however, no investment shall be made based solely on earnings anticipated from capital gains.

To the extent possible, the City shall attempt to match its investments to anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than 5 years from the date of purchase or in accordance with state and local statutes and ordinances.

8. Reporting

A. Methods

The City Treasurer shall prepare monthly investment reports to the City Council and City Manager which shall include the:

- par amount of the investment,
- classification of the investment,
- percentage of the total portfolio which each type of investment represents, name of the institution or entity,
- rate of interest,
- maturity date,
- current market value,
- source of the market value, and
- weighted average maturity of the portfolio.

Reports shall also include a statement that the projected cash flow is adequate to meet expected obligations over the next six months, and that the portfolio is in compliance with this policy. The report shall be due within 30 days of the end of the quarter. Reports may be rendered more frequently at the discretion of the City Manager or City Treasurer.

Quarterly interest reports stating the summary of interest earned for the period and its allocation to City funds shall be rendered to City Council within 30 days of the end of the quarter.

Annually there shall be provided to the City Council and City Manager a report on the performance of the investment program and an update to this policy. The report shall include a narrative discussion of the performance of the investment portfolio and shall include comparisons with appropriate benchmarks to facilitate this evaluation.

B. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. The City benchmark has been set at the six month US Treasury Bill and the average FED Funds rate.

C. Marking to Market

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly with the investment report.

9. Investment Policy Adoption

The City's Investment Policy shall be adopted by resolution annually by the City Council. The policy shall be reviewed annually by the City Council and any modifications made thereto must be approved by the City Council.

10. Glossary

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

ASK PRICE: The price at which securities are offered.

BEAR MARKET: A period of generally pessimistic attitudes and declining market prices.

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

BOND: An interest-bearing security issued by a corporation, quasi-governmental agency or other body, which can be executed through a bank or trust company. A bond is a form of debt with an interest rate, maturity, and face value, and is usually secured by specific assets. Most bonds have a maturity of greater than one year, and generally pay interest semi-annually.

BOND RATING: The classification of a bond's investment quality.

BOOK VALUE: The amount at which a security is carried on the books of the holder or issuer. The book value is often the cost, plus or minus amortization, and may differ significantly from the market value.

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

BULL MARKET: A period of generally optimistic attitudes and increasing market prices.

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

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

COMMERCIAL PAPER: Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Such instruments are unsecured and usually discounted, although some are interest-bearing.

COMMISSION: The broker's or agent's fee for purchasing or selling securities for a client.

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

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

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

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

DEFAULT RISK: This is the risk that a company or individual will be unable to make the required payments on their obligation. Standard measurement tools to gauge default risk include credit ratings by Nationally Recognized Statistical Rating Organizations (NRSROs).

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.

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.

FEDERAL RESERVE SYSTEM: The central bank of the United States which consists of a seven member Board of Governors, 12 regional banks and approximately 5,700 commercial banks that are members.

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.

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

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

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

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 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.

FISCAL YEAR: An accounting or tax period comprising any twelve month period. The City's fiscal year begins on July 1.

FULL FAITH AND CREDIT: The unconditional guarantee of the United States government backing a debt for repayment.

GOVERNMENT SPONSORED ENTERPRISE (GSE) - A privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over Treasuries. Examples of GSEs include: FHLB, FHLMC, FNMA, and SLMA.

INTEREST RATE: The interest payable each year on borrowed funds, expressed as a percentage of the principal.

INVESTMENT: Use of capital to create more money, either through income-producing vehicles or through more risk-oriented ventures designed to result in capital gains.

INVESTMENT PORTFOLIO: A collection of securities held by a bank, individual, institution, or government agency for investment purposes.

LAIF: trade name for the ***California State Local Agency Investment Fund***. Chapter 730, Statutes of 1976 of the State of California, established the LAIF. The LAIF enables local governmental agencies to remit money not required for immediate needs to the State Treasurer for the purpose of investment. In order to derive the maximum rate of return possible, the State Treasurer has elected in invest these monies with State monies as a part of the Pooled Money Investment Account. Each local governmental unit has the exclusive determination of the length of time its money will be on deposit with the State Treasurer. At the end of each calendar quarter, all earnings derived from investments are distributed by the State respective amounts deposited in the LAIF

and the length of time such amounts remained therein. Prior to the distribution, the State's cost of administering the program are deducted from the earnings. The California Government Code states that monies placed for deposit in LAIF are in trust in the custody of the State Treasurer and cannot be borrowed or be withheld from the City. Further, the right of the City to withdraw its deposited money from the LAIF upon demand may not be altered, impaired, or denied in any way by any State official or agency based upon the State's failure to adopt a budget by July 1 of each new fiscal year.

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.

MARKET RISK: This is the risk that the value of a security will raise or decline as a result of changes in market conditions.

MARKET VALUE: the price at which a security is currently being sold in the market.

MATURITY: the date that the principal or stated value of debt instrument becomes due and payable.

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

MUTUAL FUND: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by Securities and Exchange Commission (SEC) disclosure guidelines.

NEGOTIABLE CERTIFICATES OF DEPOSIT: Fixed deposit certificate that may be negotiated (traded) to a third party. The institution issuing the certificate promises to pay face value plus accrued interest at maturity or semi-annually if maturity is over one year.

NRSRO: This acronym stands for Nationally Recognized Statistical Rating Organization, which is a credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. NRSROs include Standard & Poor's, Moody's, and Fitch ratings.

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: The collection of securities held by an individual or institution. The combined

holdings of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset is typically the purpose of a portfolio and may reduce risk through diversification.

PRINCIPAL: The face or par value of an instrument.

PRIMARY DEALER: Primary government dealers are a group of banks and investment dealers authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of NY in its execution of Federal Open Market Operations.

PRUDENT INVESTOR STANDARD - Standard that requires that 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. This standard is more stringent than the "prudent person" standard as it implies a level of knowledge commensurate with the responsibility at hand.

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: 1) The yield which can be attained on a security based on its purchase price or its current market price. 2) Income earned on an investment, expressed as a percentage of the cost of the investment.

RATING: The designation used by investors' services to rate the quality of a security's creditworthiness. Moody's ratings range from the highest Aaa, down through Aa, A, Bbb, Ba, B, etc. while Standard and Poor's rating range from the highest AAA, down through AA, A, BBB, BB, B, etc.

REFINANCING: Rolling over the principal on securities that have reached maturity or replacing them with the sale of new issues. The object may be to save interest costs or to extend the maturity of the loan.

SAFEKEEPING: A service offered to customers for a fee, where securities are held in the vaults for protection.

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

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

SEC RULE 15(C)3-1: See Uniform Net Capital Rule.

SECURITIES: investment instruments such as bonds, stocks and other instruments of indebtedness or equity.

SPREAD: The difference between two figures or percentages. For example, it may be the difference between the bid and asked prices of a quote, or between the amount paid when bought and the amount received when sold.

STRUCTURED NOTE: A debt obligation that also contains an embedded derivative component with characteristics that adjust the security's risk/return profile. The return performance of a structured note will track that of the underlying debt obligation and the derivative embedded within it.

TREASURY BILLS (T-BILL): U.S. Treasury Bills are short-term, direct obligations of the U.S. Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of $10,000 in multiples of $5,000 above the minimum. Treasury Bills are issued in book entry form only and are sold on a discount basis.

TREASURY BOND: A marketable, fixed-interest U.S. government debt security with a maturity of more than 10 years. Treasury bonds make interest payments semi-annually and the income that holders receive is only taxed at the federal level.

TREASURY NOTE: A marketable U.S. government debt security with a fixed interest rate and a maturity between one and 10 years. Treasury notes can be bought either directly from the U.S. government or through a bank.

When buying Treasury notes from the government, you can either put in a competitive or noncompetitive bid. With a competitive bid, you specify the yield you want; however, this does not mean that your bid will be approved. With a noncompetitive bid, you accept whatever yield is determined at auction.

TRUSTEE: A bank designated as the custodian of funds and the official representative for bondholders.

UNDERWRITER: A dealer bank or financial institution which arranges for the sale and distribution of a large batch of securities and assumes the responsibility for paying the net purchase price.

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.

U.S. GOVERNMENT AGENCIES: Instruments issued by various U.S. government agencies most of which are secured only by the credit worthiness of the particular agency.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for

the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) SS:
CITY OF PALOS VERDES ESTATES)

I, Vickie Kroneberger, City Clerk for the City of Palos Verdes Estates, California, do hereby certify that the foregoing Resolution **R15-21** was duly and regularly approved and adopted by the City Council of the City of Palos Verdes Estates at its regular meeting of the City Council on the 9th day of June 2015, by the following roll call vote:

AYES:	COUNCILMEMBERS:	Goodhart, King, Rea, Peterson, and Vandever
NOES:	COUNCILMEMBERS:	None
ABSENT:	COUNCILMEMBERS:	None
RECUSED:	COUNCILMEMBER:	None

Vickie Kroneberger, City Clerk