

# **City of Palos Verdes Estates**

## **Investment Policy**



*Fiscal Year 2018-2019*

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## **1. Policy**

This statement is intended to establish the policies for prudent investment of the City of Palos Verdes Estates (“City”) funds, and to provide guidelines for suitable investments.

It shall be the policy of the City to invest public funds not required for immediate day-to-day operations securely and in such a manner as to comply with federal, state and local laws, ensure prudent money management, and meet the objectives of this Investment Policy (“Policy”), in priority order of safety, liquidity and return on investment.

In the event of any conflict between this policy and the municipal code, the provisions of the municipal code shall govern.

## **2. Scope**

This investment Policy applies to all investment activities and financial assets of the City. The funds covered by this policy are accounted for and incorporated in the City’s Comprehensive Annual Financial Report (“CAFR”), and include but are not limited to:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Internal Service Funds
- Any new fund created and approved by the City Council.

This investment policy does not apply to employee retirement benefit funds.

## **3. Prudence**

In accordance with California Government Code (“CGC”) §53600.3, the Treasurer and/or his designee, who are authorized to make investment decisions on the City’s behalf, 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 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 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.”*

### **Indemnification of Investment Officials**

Investment officers acting in accordance with written procedures and the City’s investment policy and exercising due diligence and prudence shall be relieved of personal liability for an individual security credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

#### **4. Investment Objectives**

The City's primary investment objectives, in order of priority, are (1) safety - the preservation of principal, (2) liquidity - maintaining sufficient liquidity to meet its cash flow needs, and (3) yield - achieving a reasonable rate of return on public funds, while minimizing the potential for capital losses.

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 in the overall portfolio. The objective is to mitigate credit or default risk, interest rate risk, and market risk, as summarized below.

*Credit or Default Risk* – The risk of loss due to the failure of the security issuer and/or guarantor, or backer, may be mitigated by:

- Limiting purchases to the safest types of investments,
- Diversifying the investment portfolio among a variety of securities offering independent returns to minimize any potential losses on individual securities,
- Avoiding the concentration of investments in any one specific security type or asset class, in any one financial institution, or in any one specific geographic area or industry,
- Pre-qualifying financial institutions, brokers/dealers, intermediaries, and advisers with which the City does business and ensuring competitive transaction pricing.

*Interest Rate Risk* – The risk that the market value of securities will fall as interest rates rise in the general market may be mitigated by:

- Holding individual securities to maturity: i.e. structuring the investment portfolio to match the timing of cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity;
- Employing a laddering strategy: i.e. staggering maturities of individual securities to provide incremental liquidity over a time horizon;
- Investing an appropriate level of operating funds in money market mutual funds, or similar investment pools, which provide for same or next day access to cash.

*Market Risk* - The risk of market value fluctuations or volatility may be mitigated by:

- Purchasing securities which are readily tradable in active secondary markets, rather than in thinly traded markets;
- Maintaining prudent duration levels;
- Staggering investment maturity dates over a desired overall duration target.

B. **Liquidity:** The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements. This is accomplished by structuring the portfolio so that securities mature concurrently with the anticipated operational demands. Furthermore, since

all possible cash demands cannot be anticipated, it is recommended that a portion of the portfolio consist of money market mutual funds or local government investment pools that offer same-day liquidity for short-term funds, and/or securities with active secondary or resale markets.

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 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.

## **5. Delegation of Authority**

The City Council, as permitted under CGC §53607, delegates the responsibility to invest or reinvest City funds, or to sell or exchange securities so purchased, to the City Treasurer (“Treasurer”). Under the oversight of the Treasurer, responsibility of the operation of the investment program may be explicitly delegated to the Finance Director or City Manager who shall act in accordance with established written procedures and internal controls consistent with this policy. No person may engage in an investment transaction except as provided under the terms of this Policy and the investment procedures established by the Treasurer and approved by the Finance Director.

## **6. Ethics and Conflicts 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 personal financial/investment positions that could be related to the performance of the investment portfolio. Officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the City.

These disclosure requirements shall include complying with the disclosure requirements as established by the Fair Political Practices Commission and Conflict of Interest Codes of the City.

## **7. Authorized Financial Dealers and Institutions**

The Treasurer, in coordination with the Finance Director, shall maintain a list of approved

financial institutions authorized to provide investment services to public agencies in the State of California. These may include “primary” dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). Deposits shall only be made in a qualified public depository as allowed under State Statute. In selecting financial institutions for the deposit or investment of City funds, the Treasurer will consider the credit rating of the institutions.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the City Treasurer and Finance Director with the following:

- Audited financial statements;
- Proof of FINRA certification;
- Trading Resolution;
- Proof of State of California registration;
- Completed broker/dealer questionnaire;
- Written annual certification agreeing to abide by the City’s investment policy and depository contracts.

An annual review of the financial condition and registrations of qualified bidders may be conducted by the City 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. Whenever reasonable a competitive bid process, utilizing a minimum of two financial institutions deemed eligible by the Treasurer, will be used to place investment purchases. The City shall transact business only with banks, savings and loans, and with brokers/dealers approved by the Investment Policy Advisory Committee.

## **8. Authorized and Suitable 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:

INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM %	MINIMUM RATING
U.S. Treasury Obligations	5 years	100%	None
U.S. Agency Obligations	5 years	100%	None
Bankers' Acceptances	180 days	15%/ 10% per issuer	None
Commercial Paper	270 days	15%/ 10% per issuer	A1/P1 issue; AA issuer
Negotiable Certificates of Deposit	5 years	30%	\$250,000 FDIC Insured
Non-Negotiable Certificates of Deposit	5 years		\$250,000 FDIC Insured
Placement Service Certificates of Deposit	5 years		None
Repurchase Agreements*	180 days	15%/ 10% per issuer	None
Medium Term Notes	2 years	15%/ 10% per issuer	AA
Mutual Funds/Money Market Mutual Funds	N/A	20%/ 10% per issuer	Highest rating by 2 NRSROs
Collateralized Bank Deposits	5 years	100%	None
L.A. County Pooled Investment Fund	N/A	100%	None
Local Agency Investment Fund (LAIF)	N/A	100%	None

\*Requires a Master Repurchase Agreement to be signed and on file with the bank or broker/dealer.

### Legislative Changes

Any State of California legislative action that further restricts allowable maturities, investment type or percentage allocations will be incorporated into the Investment Policy and supersede any and all previous applicable language (see Exhibit 1, Allowable Investment Instruments Per State Government Code).

### Unauthorized Investments

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

- Local Agency Bonds
- California State and Local Agency Obligations
- Other State Obligations
- Negotiable Certificates of Deposit over \$250,000 FDIC Limit
- Reverse Repurchase Agreements
- Supranational Obligations

- Derivatives
- Common Stock
- Prohibited investments cited in CGC 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

## **9. Review of Investment Portfolio**

The City’s investment portfolio must be in compliance with Section 8 of this Policy at the time an investment is purchased. However, it is possible that, subsequently, the portfolio may be in breach of compliance even without any purchase activity due to a downgrade in a security’s ratings, redemptions or maturities resulting in exceeding stipulated maximum percentages of a particular investment type, fluctuation in total portfolio size, or a change in California Government Code.

The portfolio shall be monitored, as often as practical, but at least quarterly. The Treasurer shall report any major and critical incidences of portfolio non-compliance either with statutes or Policy to the City Council and the Investment Policy Advisory Committee and provide recommendations to remedy at least quarterly.

## **10. Investment Pools/Mutual Funds**

A thorough investigation of any government sponsored pool and/or mutual fund is required prior to investing and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of how interest is calculated and distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, and what size of deposits and withdrawals are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves or retained earnings utilized?
- A fee schedule, and method for assessing fee
- Does the pool accept bond proceeds?

## **11. Collateralization**

Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level for certificates of deposit will be 110% of market value of principal and accrued interest. Collateralization level for repurchase agreements shall be 102% of market value of principal and accrued interest. Collateral can be either U.S. Treasury



securities or Federal Agency securities.

Section 53649 of the California Government Code specifies that the City Treasurer is responsible for entering into the deposit contracts with each depository. Investments held with third parties holding collateral shall be properly collateralized in accordance with collateralization requirements of the California Government Code.

## **12. Safekeeping and Custody**

**A. Delivery vs. Payment:** All security transactions entered into by the City shall be conducted on a "delivery vs. payment" (DVP) basis. The DVP basis for delivery applies also to the delivery and safekeeping of repurchase agreement collateral. Any exception to this standard delivery practice, e.g. a DVP failure necessitating delivery other than by simultaneous exchange, will require written procedural approval by the City Treasurer.

**B. Custody:** To protect against fraud and embezzlement, the investment securities of the City shall be held by a third party custodian according to established safekeeping procedures.

To protect against potential losses caused by the collapse of individual securities dealers, all securities owned by the City, including collateral on repurchase agreements, shall be held in safekeeping by the City's custodian bank or a third party bank trust department, acting as agent for the City under the terms of a custody or trustee agreement executed by the bank and by the City. Custody will be evidenced by safekeeping receipts.

## **13. Diversification**

The City will diversify its investments by security type, issuer, credit risk profile, financial institution and maturity. See Section 8 for limitations by category on the investment of City funds. Maturities shall be selected which provide for stability of income and reasonable liquidity. Risks of market price volatility shall be controlled through maturity and issuer diversification.

In order to reduce portfolio risk, the City's portfolio will be diversified by type and issuer. The portfolio shall be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. The City shall diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions. In a diversified portfolio, occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return.

## **14. Maximum Maturities**

To the extent possible, the City shall attempt to match its investments to anticipated cash flow requirements. The Treasurer will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with government statute. The weighted average maturity (or duration) of the pooled portfolio shall reflect the liquidity needs and risk profile that the Treasurer deems appropriate. It is intended that all investments will be held to maturity to avoid possible capital loss.

## **15. Internal Controls**

The Finance Director is responsible for establishing and maintaining a system of internal controls to ensure that City assets are protected from loss arising from fraud, employee error, imprudent actions, theft or misuse, and to ensure compliance with this Policy, City-mandated procedures and federal and state laws.

An internal control structure should include written procedures that encompass the following principles:

- Segregation of duties,
- Explicit delegation of authority and responsibility
- Timely reconciliation and balancing,
- Documentation, recording, and record keeping,
- Management control and oversight,
- Dual or secondary authorization.

The control structure should cover timely projections of cash flow and funding needs, cash collection and disbursements, wire transfers, anti-theft and anti-fraud practices, depository and custody services, collateral management, broker/dealer services, trading and confirmation, and master repurchase agreements (if appropriate).

It 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.

The Finance Director shall establish an annual process for independent review of these controls, including cash and investment testing, by an external auditor. This review will help to ensure compliance with the City's investment policies and procedures.

## **16. Performance Standards**

The investment portfolio shall be designed with the objective of principal preservation, liquidity and obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The City's investment strategy is passive, i.e. securities are purchased with the intent to hold to maturity. Given this strategy and given that the portfolio strategy may change over time due to the City's cash flow needs or due to market conditions, the Treasurer shall select an appropriate benchmark approximating the portfolio's weighted average maturity or select an appropriate combination of benchmarks that reflects the portfolio composition. The Treasurer shall compare the portfolio's total return annually against the appropriate benchmark to determine whether market yields are being achieved.

## **17. Reporting**

### **Quarterly Reports**

The Treasurer shall prepare a quarterly investment report to the Investment Policy Advisory Committee, City Council and City Manager within 30 days of the end of the quarter, in accordance with CGC Section 53646. Reports may be rendered more frequently at the discretion of the Treasurer or upon request by the City Council or City Manager. Quarterly reports shall include the following information as of the end of the quarter:

- Type of investment
- Issuer
- Par and book value of the investment
- Market value
- Source of market value
- Maturity date
- Weighted average maturity of the portfolio
- Interest rate
- Percentage of the total portfolio represented by each investment category
- Liquid balances, including, but not limited to, funds held in bank demand deposit accounts, LAIF and county pools
- A statement that the projected cash flow is adequate to meet expected obligations over the next six months, or an explanation of why sufficient money will not be available
- A statement that the portfolio is in compliance with this investment policy, and if not, the reason for non-compliance and plan for remedy

### **Monthly Report**

In accordance with CGC Section 53607, the Treasurer shall present a monthly report of transactions, including interest earned, purchases, sales and maturities to the City Council within 30 days of the end of the month.

### **Annual Report**

Annually there shall be provided to the Investment Policy Advisory Committee, the City Council and City Manager a report on the performance of the investment program. The report shall include a narrative discussion of the performance of the investment portfolio.

## **18. Investment Policy Advisory Committee**

An Investment Policy Advisory Committee has been formed for the purpose of overseeing the implementation of the City's investment program and assuring it is consistent with the investment policy as approved by the City Council. The advisory committee shall consist of the City Treasurer (Chair), two members of the public to be appointed by the City Council, and two ex-officio non-voting members.

## **19. Investment Policy Adoption**

The City's Investment Policy shall be adopted by resolution annually by the City Council.

The policy shall be reviewed at least annually by the City Treasurer and the Finance Director, in conjunction with the Investment Policy Advisory Committee, and any modifications must be approved by the City Council.

## **CITY OF PALOS VERDES ESTATES GLOSSARY OF INVESTMENT POLICY TERMS**

**Bank Deposit:** Deposits in banks or other depository institutions that may be in the form of demand accounts (checking) or investments in accounts that have a fixed term and negotiated rate of interest

**Bankers' Acceptance:** A draft or bill of exchange accepted by a bank or trust company. The accepting institution, as well as the issuer, guarantees payment of the bill.

**Benchmark:** A passive index used to compare the performance, relative to risk and return, of an investor's portfolio.

**Book Value:** The value at which an asset is carried on a balance sheet.

**Broker:** A person or firm that acts as an intermediary by purchasing and selling securities for others rather than for its own account

**Buy and Hold Strategy:** A strategy based on holding all securities until maturity, regardless of fluctuations in the market.

**Cash Flow:** A comparison of cash receipts (revenues) to required payments (debt service, operating expenses, etc.).

**Certificate of Deposit (CD):** A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender at the end of the loan period.

**CD Placement Service:** A service that allows local agencies to purchase more than \$250,000 in CDs from a single financial institution while still maintaining FDIC insurance coverage.

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

**Collateralization of Deposit:** Process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing the repayment of deposited funds.

**Commercial Paper (CP):** An unsecured short-term promissory note issued by corporations or municipalities, with maturities ranging from 2 to 270 days.

**Comprehensive Annual Financial Report (CAFR):** The official annual report for the City. It includes 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.

**County Pooled Investment Funds:** The aggregate of all funds from public agencies placed in the custody of the county treasurer or chief finance officer for investment and reinvestment.

**Coupon:** The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

**Credit Risk:** The chance that an issuer will be unable to make scheduled payments of interest and principal on an outstanding obligation. Another concern for investors is that the market's perception of an issuer/borrower's credit will cause the market value of a security to fall, even if default is not expected.

**Custodian:** A bank or other financial institution that keeps custody of stock certificates and other assets.

**Dealer:** Someone who acts as a principal in all transactions, including underwriting, buying, and selling securities, including from his/her own account.

**Default Risk:** The risk that issuers/borrowers will be unable to make the required payments on their debt obligations.

**Delivery vs. Payment:** The payment of cash for securities as they are delivered and accepted for settlement.

**Diversification:** The allocation of different types of assets in a portfolio to mitigate risks and improve overall portfolio performance.

**Duration:** Indicator of the effect of an interest rate change on a bond price. The longer the duration, the greater the expected change in a portfolio's value when interest rates change.

**Federal Deposit Insurance Corporation (FDIC):** A federal agency that insures bank deposits, currently up to \$250,000 per entity.

**Financial Industry Regulatory Authority (FINRA):** FINRA is the successor to the National Association of Securities Dealers (NASD) and the member regulation, enforcement and arbitration operations of the New York Stock Exchange. It is a non-governmental organization that regulates member brokerage firms and exchange markets. The government agency which acts as the ultimate regulator of the securities industry, including FINRA, is the Securities and Exchange Commission.

**Government Sponsored Enterprises (GSE):** Privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. Securities issued by 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.

**Interest:** The amount a borrower pays to a lender for the use of his or her money.

**Interest Rate Risk:** Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, spread between two rates, shape of the yield curve, or any other interest rate relationship.

**Liquidity:** The measure of the ability to convert an instrument to cash on a given date at full face or par value.

**Liquidity Risk:** The risk that a security, sold prior to maturity, will be sold at a loss of value. For a local agency, the liquidity risk of an individual investment may not be as critical as how the overall liquidity of the portfolio allows the agency to meet its cash needs.

**Local Agency Investment Fund (LAIF):** A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

**Market Risk:** The chance that the value of a security will decline as interest rates rise. In general, as interest rates fall, prices of fixed income securities rise. Similarly, as interest rates rise, prices fall. Market risk also is referred to as systematic risk or risk that affects all securities within an asset class similarly.

**Market Value:** The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

**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 on which the principal or stated value of an investment becomes due and payable.

**Medium Term Note:** Corporate or depository institution debt securities meeting certain minimum quality standards (as specified in the California Government Code) with a remaining maturity of five years or less.

**Money Market Mutual Funds:** MMF's are mutual funds that invest exclusively in short-term money market instruments. MMF's seek the preservation of capital as a primary goal while maintaining a high degree of liquidity and providing income representative of the market for short-term investments.

**Mutual Fund:** An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

**Nationally Recognized Statistical Rating Organization (NRSRO):** A rating organization designated by the SEC as being nationally recognized.

**Negotiable Certificates of Deposit:** Generally, short-term debt instrument that usually pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. The majority of negotiable CDs mature within six months while the average maturity is two weeks. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor). Negotiable CDs are insured by FDIC up to \$250,000, but they are not collateralized beyond that amount.

**Non-Negotiable Certificates of Deposit:** CDs that carry a penalty if redeemed prior to maturity. A secondary market does exist for non-negotiable CDs, but redemption includes a transaction cost that reduces returns to the investor. Non-negotiable CDs issued by banks and savings and loans are insured by the Federal Deposit Insurance Corporation up to the amount of \$250,000, including principal and interest. Amounts deposited above this amount may be secured with other forms of collateral through an agreement between the investor and the issuer. Collateral may include other securities including Treasuries or agency securities such as those issued by the Federal National Mortgage Association.

**Par Amount or Par Value:** The principal amount of a note or bond which must be paid at maturity. Par, also referred to as the "face amount" of a security, is the principal value stated

on the face of the security. A par bond is one sold at a price of 100 percent of its principal amount.

**Portfolio:** Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

**Price:** Price is the amount of monetary consideration required by a willing seller and a willing buyer to sell an investment on a particular date.

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

**Prudent Investor Standard:** A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in such a situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

**Qualified Public Depository:** 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.

**Repurchase Agreement:** An agreement of one party (for example, a financial institution) to sell securities to a second party (such as a local agency) and simultaneous agreement by the first party to repurchase the securities at a specified price from the second party on demand or at a specified date.

**Safekeeping:** Offers storage and protection of assets provided by an institution serving as an agent.

**Safety:** In the context of investing public funds, safety relates to preserving the principal of an investment in an investment portfolio; local agencies address the concerns of safety by controlling exposure to risks.

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

**Total Return:** Total return includes interest, realized gains and losses, and unrealized gains and losses over a given period of time.

**U.S. Agency Obligations:** Agencies of the Federal government set up to supply credit to various classes of institutions (e.g. savings & loans, small business firms, students, farmers, housing agencies). Examples include Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB) and Federal Farm Credit Bank (FFCB).

**U.S. Treasury Obligations:** Debt obligations of the U.S. Government sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that

mature in one year or less and are sold at a discount. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.

**Weighted Average Maturity:** The average maturity of all the securities that comprise a portfolio, typically expressed in days or years.

**Yield:** The current rate of return on an investment security generally expressed as a percentage of the securities current price.



# EXHIBIT 1

## Allowable Investment Instruments Per State Government Code

**FIGURE 1**

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2018)<sup>a</sup> APPLICABLE TO ALL LOCAL AGENCIES<sup>b</sup>

See "Table of Notes for Figure 1" on the next page for footnotes related to this figure.

INVESTMENT TYPE	MAXIMUM MATURITY <sup>a</sup>	MAXIMUM SPECIFIED % OF PORTFOLIO <sup>a</sup>	MINIMUM QUALITY REQUIREMENTS
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations—CA And Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40% <sup>d</sup>	None
Commercial Paper—Pooled Funds <sup>e</sup>	270 days	40% of the agency's money <sup>a</sup>	Highest letter and number rating by an NRSRO <sup>a</sup>
Commercial Paper—Non-Pooled Funds <sup>e</sup>	270 days	25% of the agency's money <sup>a</sup>	Highest letter and number rating by an NRSRO <sup>a</sup>
Negotiable Certificates of Deposit	5 years	30% <sup>d</sup>	None
Non-negotiable Certificates of Deposit	5 years	None	None
Placement Service Deposits	5 years	30% <sup>d</sup>	None
Placement Service Certificates of Deposit	5 years	30% <sup>d</sup>	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days <sup>c</sup>	20% of the base value of the portfolio	None <sup>d</sup>
Medium-Term Notes <sup>h</sup>	5 years	30%	"A" rating category or its equivalent or better
Mutual Funds And Money Market Mutual Funds	N/A	20%	Multiple <sup>g</sup>
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	"AA" rating category or its equivalent or better <sup>h</sup>
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple <sup>g</sup>
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund <sup>i</sup>	N/A	None	None
Supranational Obligations <sup>j</sup>	5 years	30%	"AA" rating category or its equivalent or better

### LOCAL AGENCY INVESTMENT GUIDELINES

TABLE OF NOTES FOR FIGURE 1

- <sup>a</sup> Sources: Sections 16340, 16429.1, 53601, 53601.8, 53635, 53635.2, 53635.8, and 53638.
- <sup>b</sup> Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.
- <sup>c</sup> Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.
- <sup>d</sup> Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.
- <sup>e</sup> No more than 30 percent of the agency's money may be in bankers' acceptances of any one commercial bank.
- <sup>f</sup> "Select Agencies" are defined as a "city, a district, or other local agency that do(es) not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body."
- <sup>g</sup> Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer.
- <sup>h</sup> Issuing corporation must be organized and operating within the U.S., have assets in excess of \$500 million, and debt other than commercial paper must be in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization, or the issuing corporation must be organized within the U.S. as a special purpose corporation, trust, or LLC, has program wide credit enhancements, and has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating agency.
- <sup>i</sup> "Other Agencies" are counties, a city and county, or other local agency "that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body." Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set for "Select Agencies," above.
- <sup>j</sup> No more than 30 percent of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).
- <sup>k</sup> No more than 30 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service (excludes negotiable certificates of deposit authorized under Section 53601(i)).
- <sup>l</sup> Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.
- <sup>m</sup> Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.
- <sup>n</sup> "Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, 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"
- <sup>o</sup> No more than 10 percent invested in any one mutual fund. This limitation does not apply to money market mutual funds.
- <sup>p</sup> A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53635.
- <sup>q</sup> A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of \$500 million.
- <sup>r</sup> Issuer must be rated in a rating category of "A" or its equivalent or better as provided by a nationally recognized statistical rating organization.
- <sup>s</sup> A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).
- <sup>t</sup> Local entities can deposit between \$200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.
- <sup>u</sup> Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).