

# City of Palos Verdes Estates Investment Policy



*Fiscal Year 2024-2025*

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## **Glossary of Investment Policy Terms**

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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”), which are, in priority order, safety, liquidity and return on investment.

In the event of any conflict between this Policy and the PVE Municipal Code, the provisions of the Municipal Code shall govern.

In the event of any conflict between this Policy and the California Government Code (“CGC”), the CGC 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 Annual Comprehensive Financial Report (“ACFR”), 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 CGC §53600.3, the Treasurer, and any of his/her delegates who have been authorized to make investment decisions on the City’s behalf, are trustees and therefore fiduciaries subject to the Prudent Investor Standard, as follows:

*“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**

The Treasurer, and any of his/her delegates, acting in accordance with this Policy and the CGC, and exercising due diligence and prudence, shall be relieved of personal liability for an individual security credit risk or market price change, provided any 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 capital, (2) liquidity - maintaining sufficient liquidity to meet its cash flow needs, and (3) yield - achieving a reasonable rate of return on public funds without compromising safety and liquidity.

**A. Safety:** Defined as preservation of capital, safety is the foremost objective of the investment program. The intent of this objective is to mitigate credit risk, interest rate risk, and market risk, as summarized below:

### **a. Credit Risk**

The risk of loss due to default (failure to pay required interest and/or principal payments) by the security issuer and/or its guarantor. Even if actual default does not occur, a decline in an issuer/borrower’s credit rating may cause the market value of a security to fall.

#### **Credit risk may be mitigated by:**

- Limiting purchases to the safest types of investments, as defined by the parameters of this Policy and the CGC, which stipulate credit quality requirements for investment categories.
- Diversifying the investment portfolio among multiple different securities earning independent returns, thereby minimizing potential losses on individual securities,
- Avoiding a concentration of investments in any one specific security type or asset class, any single corporate issuer, any one financial institution, or any specific geographical area or industry.
- Pre-qualifying financial institutions, brokers/dealers, intermediaries, and advisers with whom the City does business and ensures competitive transaction pricing.

- b. Market Prices & Interest Rates** move in opposite directions. That is, in an environment where interest rates are rising, prices of existing bonds (issued when rates were lower) will fall. Conversely, in an environment where interest rates are falling, market values of existing bonds will increase, since they have a higher yield than is currently available on the market.
- c. Interest Rate Risk** is the risk that a fixed income security will decline in market value due to fluctuations in interest rates, as noted above. An investment's value may change due to a change in the absolute level of interest rates, the spread between two rates, the shape of the yield curve, or any other interest rate relationship.
- d. Market Risk** is the risk a security's market value will decline due to factors affecting overall financial markets. Possible contributors to market risk are fluctuations in interest rates or foreign exchange rates, inflation, recession and geopolitical events. Market risk affects all securities within an asset class similarly and, therefore, generally cannot be mitigated by portfolio diversification.
- e. Risk Mitigation Strategies** for dealing with both market risk and interest rate risk include:
- Creating a portfolio with maturities matching expected liquidity needs as indicated in cash flow forecasts prepared, and regularly updated, by City staff,
  - Employing a "laddering strategy," that is, staggering investment maturity dates over a time horizon to achieve a targeted duration,
  - Holding individual securities to maturity: thereby avoiding the loss of principal in a market where interest rates have risen,
  - Investing in securities that are readily tradable on active secondary markets, versus investments that are thinly traded,
  - Investing an appropriate level of operating funds in authorized money market mutual funds and/or investment pools, which provide ready access to cash. This avoids the need to sell investments, potentially at a loss, prior to maturity in order to meet short-term obligations.
- B. Liquidity:** The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements. This means that the City

should have adequate cash on hand, or investments readily convertible to cash, to meet its obligations as they come due.

As mentioned above, since all possible cash demands cannot be anticipated, it is recommended that a portion of the portfolio be invested in money market mutual funds, local government investment pools, or other funds offering ready liquidity. These investments must be permitted by this Policy and the CGC.

Additionally, to the extent possible, the portfolio should be structured so that maturities coincide with expected liquidity needs based on cash flow forecasts prepared, and regularly updated, by City staff,

**C. Yield:** The investment portfolio shall be designed with the objective of attaining a reasonable rate of return throughout budget and economic cycles, considering the City's liquidity needs and the investment parameters set by this Policy and the CGC. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

Investments permitted under this Policy and the CGC are limited to relatively low risk securities, with limited opportunities for above market returns. Further, insofar as the City generally maintains a "buy-and-hold" investment philosophy (one that avoids disposing of security positions prior to scheduled maturity), sales of securities at a loss in search of higher yields is discouraged. Securities should, generally, not be sold until 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.
- Deviations from these guidelines must be approved by City Council.

## **5. Delegations of Authority & Responsibility**

The Palos Verdes Estates City Treasurer, as an elected official, maintains an autonomous role for oversight and decisions relating to the investment and safekeeping of City funds. The position is independent of the City Council who retains responsibility for City government, including establishing City policies.

The City Treasurer's function is defined by CGC Sections 41001-41007 and is guided by the Palos Verdes Estates Investment Policy and other policies adopted by City Council.

**6. Role of City Council:** As permitted under CGC §53607, the City Council annually delegates the responsibility for investing or reinvesting City funds, or for sale or exchange of securities so purchased, to the City Treasurer. The City Council is also responsible for annual review and approval of the City Investment Policy and for appointing members, other than the City Treasurer, to the Investment Policy Advisory Committee. The Council is also responsible for approving other policies and procedures related to cash and investments of City funds.

**7. Role of the City Treasurer:** Working closely with City staff, the City Treasurer has responsibility for:

- Ensuring availability of funds to meet the City's daily cash flow needs,
- Managing and recommending City banking and custody service agreements in conformance with this Policy and best practices,
- Entering into deposit contracts with each depository approved by City Council (CGC §53649).
- Working with authorized investment brokers to invest responsibly for maintaining the security and accessibility of City funds, while earning an appropriate return on funds invested,
- Delivering monthly and quarterly investment reports to City Council and the City Manager in conformance with the CGC, the City's Investment Policy and best practices,
- Providing a signature on approved checks, drafts and warrants, Periodic review and approval of City policies, procedures and internal controls related to cash and investments and making appropriate recommendations for changes to City Council.

**8. Role of City Staff**

- Monitoring and reviewing fund receipts, disbursements and cash balances,
- Providing weekly updates of all banking activities, including a description of all receipts and disbursements.

- Timely and accurate recording of investment transactions executed by the City Treasurer,
- Providing annual cash flow projections, updated on a quarterly basis, or more often if there are material changes anticipated.
- Assisting in the preparation of monthly and quarterly treasury reports,
- Ensuring timely reconciliation of all bank and investment accounts,
- Establishment and maintenance of an effective system of internal controls, developed in consultation with the Finance Advisory Committee and approved by the City Treasurer and City Council. Internal controls shall be designed to ensure that the City's assets are protected from loss arising due to fraud, employee error, imprudent actions, theft, or misuse,
- Monitoring compliance with this Policy and other City-mandated policies and procedures, and with federal and state laws.

**9. Role of the Investment Policy Advisory Committee:** A Committee chaired by the Treasurer and consisting of four City residents chosen by City Council. An appointed member of City Council, as well as the City Manager, or his/her delegate, serve on the Investment Policy Advisory Committee as ex-officio members.

- Providing advice and recommendations to the City council on all matters, including policies and procedures related to investments and banking.
- Annual review and approval of the City's Investment Policy.

**10. Delegation:** While still responsible for oversight, the Treasurer may, in coordination with the City Manager and Finance Director, delegate day-to-day tasks, other than those enumerated under item C, related to management of cash and investments, to qualified members of City staff.

City staff to whom these tasks are delegated shall act in accordance with established written procedures and internal controls that are consistent with this Policy and approved by the Treasurer.

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 City Council.

## **11. Ethics & 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.

## **12. Authorized Financial Dealers & Institutions**

The Treasurer shall work only with brokers/dealers and 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 with Approved Depositories, as specified under the CGC.

In selecting financial institutions for the deposit or investment of City funds, the Treasurer will also consider the credit rating of these entities.

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

- Audited financial statements,
- Proof of FINRA certification,
- Trading resolution,
- Proof California registration,
- Completed broker/dealer questionnaire,
- Written certification agreeing to abide by the City’s investment Policy and depository contracts.

A periodic review of the financial condition and registrations of qualified brokers may be conducted by the City Treasurer or his/her authorized delegate. As part of any review performed, a current audited financial statement will be obtained for those financial institutions and brokers/dealers subject to review.

A periodic review of financial institutions with whom the City contracts to provide depository or custody services may be conducted by the City Treasurer or his/her delegate. This shall require a competitive bidding process, including a minimum of two financial institutions authorized as Approved Depositories in California, and deemed eligible by the Treasurer in consultation with the Investment Policy Advisory Committee.

The City shall transact business only with depositories approved by the Treasurer and City Council.

### **13. Authorized & Suitable Investments**

The CGC strictly limits securities in which state and local governments, including municipalities, may invest. These limits include, among others, restrictions on types of issuers, credit ratings, maturities and percentages of the portfolio that may be held in a securities of a single issuer.

As noted above in Section 7, and discussed further in Section 11, the City may only contract with institutions qualified as Approved Depositories in California for checking accounts and related banking services.

**Exhibit 1 contains a table of securities that are permitted under this Policy and the CGC. Please refer to this Exhibit for specific information related to permitted investments.**

#### **A. 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.

#### **B. Unauthorized Investments**

Prohibited investments cited in CGC §53601.6, include but are not limited to:

- Inverse Floaters
- Range Notes
- Mortgage Derivatives or similar Asset Backed Securities
- Interest Only Strips
- Any security that could result in zero-interest accrual if held to maturity, with the following exception:

Until January 1, 2026, and only in the event of, and for the duration of, a period of negative market interest rates, the City may invest in securities, issued or backed by the United States government, that could result in a zero or negative interest accrual if held

to maturity. A local agency may hold these instruments until their maturity dates. This limitation does not apply to investment in authorized mutual funds.

#### **14. 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. This can happen due to a downgrade in a security's ratings, security redemptions or maturities resulting in amounts greater than the stipulated maximum percentages of a particular investment type, fluctuation in total portfolio size, or a change in the CGC.

The portfolio shall be monitored for compliance as often as is practical, but no less often than quarterly. The Treasurer shall also report any incidences of portfolio non-compliance with either the CGC or this Policy, together with recommended remedial actions, to the City Council and the Investment Policy Advisory Committee on a quarterly basis, at minimum.

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

A thorough investigation of any government sponsored pool and/or mutual fund is required prior to investing. Periodically, especially if there are any negative indicators, this review may be updated. Information shall be gathered as follows:

- 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 securities are safeguarded (including the settlement processes), how often the securities are priced, and how often the program is audited.
- A description of who may invest in the program, how often, and what size deposits and withdrawals are allowed.
- A schedule for receiving statements and portfolio listings.
- If reserves or retained earnings are utilized, a description of how this process operates and its impact.
- A fee schedule, and method for assessing fees.
- Whether or not the pool accepts bond proceeds.

#### **16. Collateralization**

Under CGC §53652, California banks authorized as Approved Depositories are required to hold collateral equal to 110% of any deposits held on behalf of certain state and local

government agencies, including municipalities. The City of PVE is required under this Policy to deposit funds exclusively with Approved Depositories. This means that the City's deposits (i.e., checking accounts) with its banks are collateralized.

In addition, collateralization will be required on two types of investments: certificates of deposit in amounts exceeding the FDIC insured amount of \$250 thousand, and on repurchase agreements.

It should be noted that the City does not invest in CDs exceeding the \$250 thousand FDIC limit, since many of the issuers are not Approved Depositories. In the event an investment is made in a CD exceeding \$250 thousand in value, the collateralization level for the amount exceeding \$250 thousand will be 110% of the 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.

CGC §53649 stipulates that the City Treasurer is responsible for entering into deposit contracts with each depository.

Investments held with third parties holding collateral shall be properly collateralized in accordance with the collateralization requirements noted above.

## **17. Safekeeping & Custody**

6. 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.

7. 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.

## **18. Diversification**

Risks of market price volatility caused by credit failures, interest rate fluctuations and other market conditions can be mitigated through diversification of the portfolio. The City shall diversify its investments by security type, issuer, credit risk profile, financial institution and maturity. See Section 8, and Exhibit 1, for specific limitations on the investment of City funds.

In a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the overall portfolio's investment return.

## **19. Maximum Maturities**

The City shall not directly invest in securities maturing more than five (5) years from the date of purchase settlement or in accordance with the CGC. Maturities will be selected to provide for stability of income and reasonable liquidity.

The weighted average maturity (or duration) of the portfolio shall reflect the liquidity needs and risk profile that the Treasurer, in consultation with City Staff, the Investment Policy Advisory Committee and City Council, deems appropriate.

It is intended that investments will be held to maturity to avoid possible capital loss. Please see further discussion under Yield, under Investment Objectives in Section 4(C).

## **20. Internal Controls**

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

## **21. Performance Standards**

As discussed, the investment portfolio shall be designed with the objectives of safety, liquidity and yield, in that order of priority. As also discussed, the City's investment strategy is passive, i.e. securities are purchased with the intent of holding 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.

A typical benchmark for municipal portfolios is the Treasury security matching the portfolio's target duration. The Treasurer shall compare the portfolio's total return at

least annually against the benchmark selected to determine whether appropriate yields are being achieved.

## **22. Reporting**

### **Quarterly Reports**

The Treasurer shall submit a quarterly investment report to the City Council, Investment Policy Committee and City Manager within 45 days of the end of the quarter, in accordance with CGC §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 (CD, GSE, Muni, Corporate MTN, etc.),
  - Issuer,
  - Market Value, Book Value and Market Value of Each Security,
  - Source of Market Value,
  - Maturity Date,
  - Yield,
  - Percentage of the total portfolio represented by each investment category,
  - Weighted average maturity of the portfolio,
  - Liquid balances, including, but not limited to, funds held in bank demand deposit accounts, LAIF, county and/or other Joint Powers Authority 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 follows this Investment Policy, and if not, the reason for non-compliance and plan for remedy.

### **Monthly Reports**

In accordance with CGC §53607, the Treasurer shall submit to City Council, within 45 days of each month-end, a monthly report of all investment transactions, including interest earned, purchases, sales and maturities.

If the month-end falls at the end of a calendar quarter, the quarterly report shall replace the monthly reports and shall include all information required in the monthly investment report for that specific month.

Separately, the Finance Director shall prepare, and submit to City Council, a listing of all receipts and disbursements to and from the City's demand deposit bank accounts. This shall be done monthly within 45 days of each month-end and shall be separately

reported.

**23. Investment Policy Advisory Committee**

An Investment Policy Advisory Committee has been formed for the purpose of overseeing operation 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), four members of the public to be appointed by the City Council, and two ex-officio non-voting members, one of whom shall be the City Manager or his/her delegate and one of whom shall be a member of City Council appointed to serve as liaison to the Committee.

**24. 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

**Agency Pooled Investment Fund:** A fund comprised of the aggregate of all funds from participating public government agencies within the sponsoring Agency, typically the County or State, placed in the custody of the Agency's treasurer or chief finance officer for investment and reinvestment. See also LAIF>

**Amortization of Premium or Discount:** If a premium (purchase price less par value) is paid to purchase a security, the premium amount is amortized or recognized over the life of the security as a reduction of interest income. Correspondingly, if a security is purchased at a discount (par value less the purchase price), the discount amount is amortized over the life of the security as an increase in interest income.

**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. For municipal investments, Treasury securities are typical benchmarks.

**Book Value: The** value at which assets, including investments, are carried on the balance sheet of the entity. This should reflect any amortization of discount or premium represented by the purchase price of a security versus its par value.

**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: The** net value of cash receipts (revenues, e.g., property taxes) less cash outlays (payments for operating expenses, debt service, capital investments, 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 while maintaining FDIC insurance coverage, by splitting invested

funds into FDIC-insured increments among numerous participating financial institutions nationwide.

**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.

**Annual Comprehensive Financial Report (ACFR):** 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.

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

**Credit Rating:** Various alphabetical and numerical designations used by credit rating or nationally recognized statistical rating organizations (NRSROs), institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness.

The three most used NRSROs are Standard & Poor's, Moody's and Fitch, as shown in the chart which follows:



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

**Duration:** A measure of the sensitivity of a bond, or a bond portfolio, to changes in interest rates. Typically expressed in years, duration takes into account both the amount and timing of a bond's cash flows. That is, both interest payments and principal repayment at maturity are factored into the duration calculation. Generally, 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. Examples of GSEs currently include: Federal Home Loan Bank System (FHLB), Federal Farm Credit Banks Funding Corporation (FFCB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Federal Agricultural Mortgage Corporation (FAMCA), Resolution Funding Corporation (REFCO), Tennessee Valley Authority (TVA), Government Trust Certificates (GTC).

**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.

**Joint Powers Authority California Asset Management Program (JPA CAMP):** A pooled asset management program for California public agencies with professional investment services provided by PFM Asset Management LLC.

**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.

**Los Angeles County Pooled Investment Fund (LACPIF):** A voluntary investment fund, open to government entities in Los Angeles County, that is maintained by the Los Angeles County Treasurer and Tax Collector.

**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.

**Maturity Period:** For purposes of the "maximum maturities" limitation of Authorized Investments, maturity period is understood to be the period between settlement date of a trade and the security's maturity.

**Medium Term Note: Corporate** or depository institution debt securities meeting certain minimum quality standards (as specified in the CGC) 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.

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

**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. 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.

**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 holdings 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.

**Premium:** Premium means the difference between the par value of a security and the cost of the security, when the cost is above par. Investors pay a premium to purchase a security when the return to the investor (yield) is lower than the stated coupon (interest rate) on the investment.

**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.

**Public Bank:** A corporation, organized as either a nonprofit mutual benefit corporation or a nonprofit public benefit corporation for the purpose of engaging in the commercial banking business or industrial banking business, that is wholly owned by a local agency, as specified, local agencies, or a joint powers authority.

**Rate of Return:** The total return on an investment, including interest (or dividend) payments as well as capital gain or loss. It is expressed as a percentage of the initial investment cost.

**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:** 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.

**Supranational Institutions:** International institutions formed by two or more governments that transcend boundaries to pursue mutually beneficial economic or social goals. There are three supranational institutions that issue obligations that are eligible investments for California local agencies: the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).

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

**U.S. Agency Obligations:** Agencies of the Federal government (Government Sponsored Agencies, or GSEs) set up to supply credit to various classes of institutions (e.g. savings & loans, small business firms, students, farmers, housing agencies). Examples include Federal National Mortgage Association (FNMA or Fannie Mae),

Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corp (FHLMC or Freddie Mac), US Department of Housing and Urban Development (HUD), and the Small Business Administration (SBA).

**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 annual income of an investment security generally expressed as a percentage of the purchase price. It does not include capital gain or loss.

**EXHIBIT 1 - ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2024)<sup>A</sup> APPLICABLE TO ALL LOCAL AGENCIES)**

(Local Agency Investment Guidelines, Updated for 2024, by the California Debt and Investment Advisory Commission)

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

INVESTMENT TYPE	MAXIMUM MATURITY <sup>C</sup>	MAXIMUM SPECIFIED % OF PORTFOLIO <sup>D</sup>	MINIMUM QUALITY REQUIREMENTS	GOV'T CODE SECTIONS
Local Agency Bonds	5 years	None	“A” rating category or its equivalent or better	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations— CA and Others	5 years	None	“A” rating category or its equivalent or better	53601(d)
CA Local Agency Obligations	5 years	None	“A” rating category or its equivalent or better	53601(e)
U.S Agency Obligations	5 years	None	None	53601(f)
Bankers’ Acceptances	180 days	40% <sup>E</sup>	None	53601(g)
Commercial Paper— Non-Pooled Funds <sup>F * </sup>	270 days or less	25% of the agency’s money <sup>G</sup>	Highest letter and number rating by an NRSRO <sup>H</sup>	53601(h)(2)(C)
Commercial Paper— Pooled Funds <sup>I</sup>	270 days or less	40% of the agency’s money <sup>G</sup>	Highest letter and number rating by an NRSRO <sup>H</sup>	53635(a)(1)

Negotiable Certificates of Deposit	5 years	30% <sup>J</sup>	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50% <sup>K</sup>	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50% <sup>K</sup>	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days <sup>L</sup>	20% of the base value of the portfolio	None <sup>M</sup>	53601(j)
Medium-Term Notes <sup>N *</sup>	5 years or less <sup>G</sup>	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds and Money Market Mutual Funds <sup>**</sup>	N/A	20% <sup>O</sup>	Multiple <sup>P,Q</sup>	53601(l) and 53601.6(b)
Collateralized Bank Deposits <sup>R</sup>	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-Through and Asset-Backed Securities	5 years or less	20%	"AA" rating category or its equivalent or better	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple <sup>S</sup>	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1

Voluntary Investment Program Fund <sup>T</sup>	N/A	None	None	16340
Supranational Obligations <sup>U</sup>	5 years or less	30%	“AA” rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	53601(r), 53635(c) and 57603

**TABLE OF NOTES FOR FIGURE 1**

*A Sources: Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53630 et seq., 53635, 53635.8, and 57603.*

*B Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.*

*C 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 remaining 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.*

*D 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.*

*E No more than 30 percent of the agency’s money may be in bankers’ acceptances of any one commercial bank.*

*F Includes agencies defined as a city, a district, or other local agency that do not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body.*

*G A local agency may invest no more than 10% of its total investment assets in the commercial paper and the medium-term notes of any single issuer.*

*H 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, have program wide credit enhancements, and have commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating agency.*

*I Includes agencies defined as a county, 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 forth in Section 53601(h)(2)(C).*

*J No more than 30 percent of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).*

*K Effective January 1, 2020, no more than 50 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i)). On January 1, 2026, the maximum percentage of the portfolio reverts back to 30 percent. Investments made pursuant to 53635.8 remain subject to a maximum of 30 percent of the portfolio.*

*L 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.*

*M 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.*

*N "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."*

*O No more than 10 percent invested in any one mutual fund or single money market fund.*

*P 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. A mutual fund must abide by the same investment restrictions and regulations that apply to public agencies in California [Section 53601(a-k, m-o)].*

*Q 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 as specified in SEC Regulation 2a-7, with assets under management in excess of \$500 million. A money market fund must follow regulations specified by the SEC under the investment company act of 1940 (15 U.S.C. Section 80a-1, et seq.).*

*R Investments in notes, bonds, or other obligations under Section 53601(n) require that collateral be placed into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, among other specific collateral requirements.*

*S 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).*

*T 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.*

*U 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), with a maximum remaining maturity of five years or less.*