City of Fairfield
Investment Policy

1. Purpose and Scope

It is the policy of the City to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds.

The purpose of this policy is to provide broad guidelines to the officers of the City charged with the responsibility for the investment of temporarily idle surplus funds of the City and its affiliated agencies: This investment policy applies to all financial assets of these entities. The funds of these entities are described in the City's Comprehensive Annual Financial Report and include its General Fund, Capital Projects Funds, Special Revenue Funds, Enterprise Funds, Internal Service Funds, Fiduciary Funds and Successor Agency Trust Funds. All investment of idle funds is governed by Federal and State law and by this policy.

The purpose of this policy is to also identify various procedures that enhance opportunities for a systematic investment process. The initial step toward a prudent investment policy is to organize and formalize investment related activities. Related activities, which comprise good cash management, include accurate cash projection, the expeditious collection of revenue, the control of disbursements, cost effective banking relations, and a short term borrowing program which coordinates working capital requirements and investment opportunities. In concert with these requirements are the many facets of an appropriate and secure investment program.

The Director of Finance, under the supervision and direction of the City Manager, is responsible for administering the City's investments. In furtherance of this responsibility, the Director of Finance shall issue and administer detailed Investment Instructions which may change periodically and which will implement this Investment Policy. The investment of bond proceeds will be governed by the provisions of relevant bond documents.

Safeguards will be set into place to insure that adequate operating reserves are established and maintained to provide that cash in sufficient amounts will be available to pay for immediate expenditures as authorized by the City's budget. Funds so maintained will be deposited in a manner best serving the City.

It will be further recognized that the City has a responsibility to monitor the security of its assets and always maintain a level of quality so that the public at large will have the highest confidence that its best interests are being served. Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such funds shall be reinvested only as provided by this policy.

2. Prudence and Risk Tolerance

Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the City, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the City.

The City recognizes that investment risks of the following can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity:

A. Credit risk is the possibility that deterioration of an issuer's creditworthiness will adversely affect the value of its bonds or that an issuer will not make timely payments of interest or principal on its bonds (default). A decline in a bond issuer's credit rating, or creditworthiness, may cause prices for its outstanding bonds to decline. This shall be mitigated by limiting investments to those allowed under this policy and by diversification.

B. Market or Interest Rate risk, defined as market value fluctuations due to overall changes in market price, shall be mitigated by eliminating the need to sell securities prior to maturity and investing operating funds primarily in shorter-term securities, money market funds or similar investment pools, thereby limiting the average maturity of the portfolio. Investments shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the safety of capital as well as the income to be derived.

Investment officers acting in accordance with written procedures and the City's investment policy and exercising due diligence shall be relieved of personal responsibility and 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.

3. Objectives and Performance Standards

The primary objectives, in priority order, of the City's investment activities shall be:

A. Safety: Safety of principal is the foremost objective of the City's investment program, followed by liquidity and return on investments. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the City's portfolio. To obtain this objective, the City will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions. Each investment transaction shall seek to first insure that capital losses are avoided, whether they are from securities default or erosion of market value. Investment decisions should not incur unreasonable investment risks in order to obtain current investment income.

B. Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. Emphasis will be on marketable securities with low sensitivity to market risk. Maturities of investments for which there is limited opportunity for resale shall be staggered to maximize liquidity.

C. Return on Investments: The City maintains an active investment strategy and its investment portfolio shall be designed with the objective to attain a rate of return which approximates benchmarks to be selected by the City's investment advisory committee throughout budgetary and economic cycles, commensurate with and taking into account the City's safety objective, investment risk constraints, average investment duration of the City's portfolio, cash flow characteristics of the portfolio, and laws that restricts the investment of funds.

4. Delegation of Authority and Investment Procedures

The authority to manage the City's investment program is derived from California Government Code Section 53601 et seq and section 2.14.15 of the City's municipal code. The management and oversight responsibility for the investment program is hereby delegated to the Director of Finance, who shall be responsible for all transactions undertaken, monitor and review all investments for consistency with this Investment Policy and establish written procedures for the operation of the investment program, consistent with this investment policy.

Such procedures shall include a system of controls to provide explicit delegation to and regulate the activities of subordinate staff and officials of authority who are responsible for investment activities and transactions, including procedures addressing safekeeping, wire transfer agreements, collateral/depository agreements, banking services, and procedures to be used in absence of the Director of Finance. No person shall engage in an investment transaction except as provided for in this policy and these procedures.

The City may contract for the use of investment manager services subject to all other provisions of this Investment Policy. The Director of Finance shall maintain investment instructions for internal and external management of investments by the investment managers consistent with this policy and State government code requirements. Such managers must be registered under the Investment Advisers Act of 1940.

5. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. Officers and employees involved in the investment process shall abide by the City's Conflict of Interest Code, California government code section 1090 and the California Political Reform Act.

Employees and investment officials shall disclose to the City Clerk and material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial positions that could be related to the performance of the City.

These disclosure requirements shall include complying with the disclosure and disqualification requirements as established by the Fair Political Practices Commission and Conflict of Interest Codes of the City. A copy of each Investment Official's Statement of Economic Interest, which is required to contain disclosure of any material financial interests in financial institutions doing business in the City, shall be filed annually with the City Clerk.

6. Authorized Banks, Investment Brokers / Dealers and Institutions

The Director of Finance shall maintain a list of authorized broker/dealers and financial institutions, authorized to provide investment services, and it shall be the policy of the City to purchase securities only from those authorized institutions or firms. These broker/dealers will further be required to submit a certification that they have received, read, and agreed to comply with the City's annual Investment Policy.

If a third party investment advisor is authorized to conduct investment transactions on the City's behalf, the investment advisor may use its own list of approved broker/dealers and financial institutions for investment purposes. The investment advisor's approved list must be made available to City upon request. In selecting financial institutions for the deposit or investment of City funds, the credit rating ofthese institutions will be considered. These financial institutions shall be authorized to provide investment services in California.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Director of Finance with the following: audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of state/province registration, a completed broker/dealer questionnaire, and a 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 bidders may be conducted by the Director of Finance or designee. As part of any review performed, a current audited financial statement will be obtained and maintained on file for those financial institutions and brokers/dealers in which the City invests with. Whenever reasonable a competitive bid process, utilizing a minimum of three financial institutions deemed eligible by the Director of Finance 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 Advisory Committee.

7. Permitted Investments

The City is authorized by State law to invest in the following types of securities. The following includes the maximum maturities and maximum percentage or amounts that may be invested by type:

Investment Type	Maximum % or $	Maximum Maturity	Minimum Required Rating
Bank/Time Deposits	None	5 years	N/A
U.S. Treasuries	None	5 years	N/A
U.S. Agencies	75% (25% for one issuer)	5 years	N/A
Money Market Funds	20% (10% with one mutual fund)	N/A	N/A
Bankers Acceptances	30% (5% with one bank)	180 days	A1/P1
Commercial Paper	25% (5% with one firm)	270 days	A1/P1
Negotiable CDs	30% (5% with one bank)	5 years	A < 1 year AA for 1-5 years
LAIF	Per State Statute – the City has 3 accts ($65 million per account as of 1/2017)	N/A	N/A
CAMP / Caltrust	None	N/A	N/A
CDs non-negotiable / CDARS	30% (5% with one bank)	3 years	N/A
Municipal Obligations	(5% with one agency)	5 years	A (except City's Own bonds)
Medium Term Notes	30%	5 years	A
Supranationals	10%	5 Years	AAA

It is the intent that investments shall be managed in such a way that any market price losses resulting from interest-rate volatility would be offset by coupon income and current income received from the overall portfolio over market cycles. To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements.

Pursuant to Government Code Section 53601 et seq. the City may only invest in the following security types (See the Glossary section for a detailed description of each of these investment types):

A. ***U.S. Government Treasury Bills and Notes***

B. ***U.S. Government Sponsored Enterprise Debt (GSE's) (known as Agencies)***

C. ***Certificates of Deposit*** **(non-negotiable) (CDs)**
The City is authorized to use of private CD placement services by local agencies. This investment policy allows for the use of a placement service called the Certificate of Deposit Account Registry Service (CDARS), which acts as the master custodian for the placement of CDs. Through the use of this placement service, local banks that work with CDARS place one investment by the City and divide the deposit into individual CDs not to exceed $250,000, so that each individual CD is fully insured by the FDIC.

D. ***Bankers Acceptances*** **(BA)**
Those with an A1/P1 rating as provided for by a nationally recognized statistical-rating organization (NRSRO)

E. ***Commercial Paper***
Prime commercial paper with an A1/P1 rating as provided for by a NRSRO. Purchases must be limited to corporations organized and operating within the United States, and as a practical matter generally only those corporations operating within the State of California, having total assets in excess of $500 million, and having an "A" or higher rating for the issuer's debentures, other than commercial paper (as-provided by Moody's or Standard and Poor's rating services). In addition, purchases may not represent more than ten percent (10%) of the outstanding paper of an issuing corporation.

F. ***State of California Local Agency Investment Fund (LAIF)***

G. ***CalTrust / California Asset Management Program (CAMP)***

H. ***Domestic money market mutual funds***
These must be registered with the Federal Securities and Exchange Commission (SEC), have over $500 million in total assets, be rated in the highest rating category by two nationally recognized rating services and only invest in:

a) U.S. Government or federal agency securities and repurchase agreements,
b) Tax exempt obligations or other investment instruments specifically included in the local investment policy

I. ***Negotiable Certificates of Deposit***
Must be issued by a nationally or state chartered bank or savings and loan association, or by a state licensed branch of a foreign bank.

J. ***Medium Term Corporate Notes***

Notes issued by corporations organized and operating within the U.S. or by depository institutions licensed by the United States or any state and operating within the U.S. Must be rated ""A" or better by a NRSRO.

If a corporate note owned by the City is downgraded by either Moody's or S&P to a level below the quality required by this Investment Policy, it shall be the City's policy to review the credit situation and make a determination as to whether to sell or retain such a corporate note in the portfolio.

If a security is downgraded two grades below the level required by the City, the security shall be sold immediately. If a security is downgraded one grade below the level required by this policy and matures within 6 months, the security will be held to maturity. The Director of Finance may determine to sell the security if it is determined that there is a probability of default prior to maturity. If a decision is made to retain the security in the portfolio, its presence in the portfolio will be monitored and reported quarterly to the City Council.

K. ***Municipal Obligations***

Must be rated "A" or better by a nationally recognized rating agency. except for the City's own bonds and bonds issued by the City's former Redevelopment Agency and its Financing Authority, which may have any rating. Municipal Obligations include:

a. Registered state warrants or treasury notes or bonds of the State of California and bonds, notes, warrants, or other evidences of indebtedness of any local agency within California, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the state or local agency or by a department or agency of the state or local agency.

b. Registered treasury notes or bonds of any of the 49 U.S. States in addition to the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 U.S. States, in addition to California.

L. ***Supranationals***

Must be rated "AAA" or better by a nationally recognized rating agency and is U.S. dollar denominated senior unsecured unsubordinated obligations issued by the International Bank for Reconstruction and Development, International Finance Corporation, or the Inter-American Development Bank.

8. Diversification

It is the policy of this City to diversify the investment portfolio in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. See Section IX 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 security type and institution. With the exception of U.S. Treasury and Agency securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution. The portfolio shall be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institution. 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.

9. Nondiscrimination

Investments shall not knowingly be made in any institution that practices or supports, directly or indirectly through its actions, discrimination on the basis of race, religion, color, creed, national or ethnic origin, age, gender, or physical disability.

10. Maximum Maturity

As specified in Government Code Section 53601, the City Council must expressly authorize the investment of funds that mature in excess of five years. Placement of such investments cannot occur until three months have lapsed from the date of authorization. Bond covenants may allow for a longer term investment for bond reserves held with a fiscal agent. To the extent possible, investment maturities shall be based on a review of cash flow forecasts and maturities will be scheduled so as to permit the City to meet all projected obligations and cash flow requirements.

11. Ineligible Investments

Any security type or structure not specifically approved by this policy and investment instructions is specifically prohibited. Security types, which are thereby prohibited to be purchased as defined by Government Code Section 53601.6 include, but are not limited to a.) complex derivative structures such as range notes, inverse floaters, or any other complex variable rate or structure note, b.) Interest-only strips that are derived from a pool of mortgages (i.e. Collateralized Mortgage Obligations), or any security that could result in zero interest accrual if held to maturity. c) Repurchase or reverse repurchase agreements, mortgage and asset backed securities, and trade in options or future contracts.

12. Sales Prior to Maturity

Sales prior to maturity are permitted. It is also recognized that in a changing interest rate environment, it may be financially advantageous to sell investments at a book value loss in order to reinvest into a more profitable security.

13. Reporting

The Director of Finance shall render to the City Manager, the City Council, and City Clerk a monthly report which provide a clear picture of the status of the current investment portfolio. The report shall include the following information on investments:

a. A listing of individual securities held at the end of the reporting period by authorized investment category
b. Average life and final maturity of all investments listed
c. Coupon, discount or earnings rate
d. Par value, amortized book value and market value
e. Percentage of the portfolio represented by each investment category.

The monthly report shall also include a.) compliance of the portfolio to the Investment Policy and State law, or state the manner in which the portfolio is not in compliance; b.) details of all of the City's funds, investments or programs that are under management of contracted parties, including lending programs; and c.) a statement denoting the ability of the City to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money may not be available.

The report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies.
In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments", as of June 30th of each Fiscal Year the City will report all investments in excess of one year at market value (in the Comprehensive Annual Financial Report—CAFR). Any change in the value of the investments will be recognized annually, as a part of interest income.

14. Review of Investment Policy

The City's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed once every two years by the City Council and any modifications made thereto must be approved by the City Council.

15. Scope and Interest Allocation

Except for cash held in separate restricted funds, the City will pool cash balances from all funds for investments to maximize earnings and efficiencies with regards to investment pricing, safekeeping and administration. The Department of Finance shall allocate interest to funds based upon their average cash balances and in accordance with Generally Accepted Accounting Principles (GAAP). Funds with average daily balances of $10,000 or less will not receive interest allocation. All interest earnings not otherwise allocated shall be allocated to the General Fund.

16. Investment Advisory Committee

An Investment 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, Director of Finance and the Accounting Manager. The Investment Advisory Committee will meet with the City's investment managers as needed or as market or economic condition changes to determine general strategies and to monitor results. The committee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure. The written investment procedures shall be reviewed by the investment advisory committee periodically.

17. Internal Controls

The Department of Finance will establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees and officers of the City. Controls deemed most important include: control of collusion, segregation of duties, separating transaction authority from accounting and recordkeeping, custodial safekeeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized investment officials, documentation of transactions and strategies and code of ethical standards. In addition, whenever possible pre-formatted wire transfers will be used to transfer funds to pre-authorized accounts. The Director of Finance shall establish an annual process for independent review of these controls by an external auditor. This review will help to ensure compliance with the City's investment policies and procedures.

18. Safekeeping and Custody

Guidelines
All security transactions entered into by the City shall be conducted on a delivery versus payment (DVP) basis as evidenced by safekeeping receipts in the City's name. To protect against fraud and embezzlement, the investment securities of the City shall be held in the City's safe or held by a third party custodian designed by the Director of Finance in accordance to established safekeeping procedures. Custody will be evidenced by safekeeping receipts.

Securities purchased from brokers/dealers shall be held in a third party custodian account, which the City has established for safekeeping. Said securities are to be held in the name of the City with the trustee executing investment transactions as directed by the appropriate City official. Receipts for confirmation of purchase of authorized securities must include trade date, pay value, maturity, rate, price, yield, and settlement date, description of securities purchased, agency's name, and third party custodian information.

Trust Agreements
The City shall direct the investment activities of trustees. Such direction shall be in keeping with the terms and condition of its trust agreements, applicable law and policies set forth in the Investment Policy. In addition to the acceptable investment instruments listed in this policy, bonds proceeds may be invested in securities permitted under Section 53635 and other investment instruments allowed by State law, and which comply with requirements imposed by bond insurance and rating agencies.

19. Adding Investment Pools / Money Market Mutual Funds

A thorough investigation of the pool / fund is required prior to investing and on a continual basis. There shall be a questionnaire developed and responded to by the pool / fund which will address the following general areas:

- Authorized Investments
- Investment Policy and Objectives
- Interest Calculations / Distributions
- Investment Limitations
- Who May Invest
- Eligibility for holding Bond Proceeds
- Frequency Statements/Portfolio listings
- Treatment of Gains and Losses
- Safeguarding of Investments
- Settlement Process
- Deposit / Withdrawal Limitations
- Utilization of Reserves by Fund
- Frequency of audits/security pricing
- Fee Schedule/When and How assessed

20. Collateralization

Collateral for time deposit in savings and loans is to be held by the Federal Home Loan Bank. Collateral for time deposits in banks is to be held in the City's name in the bank trust department or by the Federal Reserve. Bank Collateralization is required on Certificates of Deposit (non-negotiable) in excess of $250,000, as all financial institutions also have FDIC insurance up to $250,000.. (California Government Code Section 53652 (a)). The City chooses to limit collateral to eligible securities per the Government Code.

In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value of principal and accrued interest. The right of collateral substitution may be granted by the City. Collateral will always be held by an independent third party with whom the financial institution has a current custodial agreement. These parties are limited to only those trust companies and trust departments, or the Federal Home Loan Bank of San Francisco, which have been approved by the California State Superintendent of Banks. A clearly market evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

20. Glossary

A

Accrued Interest: Coupon interest accumulated on a bond or note since the last interest payment or, for a new issue, from the dated date to the date of delivery.

Agencies: Federal agency securities and/or Government-sponsored enterprises. These include securities of government agencies such as, but not limited to: Federal National Mortgage Association (FNMA); Federal Home Loan Bank (FHLB); Government National Mortgage Association (GNMA); Community Development Corporation (CDC), Small Business Association (SBA), Tennessee Valley Authority (TVA), Federal Farm Credit Bank (FFCB) and Federal Home Loan Mortgage Corporation (FHLMC).

Arbitrage: Transactions by which securities are bought and sold in different markets at the same time for the sake of the profit arising from a yield difference in the two markets. The 1986 Tax Reform Act made this practice by municipalities illegal solely as a borrowing tactic, except under certain safe-harbor conditions.

Asked: The price at which securities are offered.

Asset Backed Securities: Securities that are supported by pools of assets, such as installment loans or leases, or by pools of revolving lines of credits. Asset-backed securities are structured as trusts in order to perfect a security interest in the underlying assets.

B

Bank Deposits: To deposit collateral in the form of currency that may be in the form of demand accounts (checking) or investments in accounts that have a fixed term and negotiated rate of interest.

Bank Notes: A senior, unsecured, direct obligation of a bank or U.S. branch of a foreign bank.

Bankers' Acceptance (BA): These are bills of exchange or time drafts drawn on, and accepted by, commercial banks in the top 100 of the world, which are eligible for purchase by the Federal Reserve System. Acceptance of the draft obligates the bank to pay the bearer the face amount of the draft at maturity. In addition to the guarantee by the accepting bank, the transaction is secured with a specific commodity. The sale of the underlying goods will generate the funds necessary to liquidate the indebtedness. BAs are usually created to finance the import and export of goods, the shipment of goods within the United States and the storage of readily marketable staple commodities. BAs are sold at a discount from par and the amount and maturity date are fixed.

Basis Point: Refers to the yield on bonds. Each percentage point of yield in bonds equals 100 basis points (1/100% or 0.01%). If a bond yield changes from 7.25% to 7.39% that is an increase of 14 basis points.

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

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

Bond Proceeds: The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These moneys are used to finance the project or purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract.

Bonds: A debt obligation of a firm or public entity. A bond represents the agreement to repay the debt in principal and, typically, in interest on the principal.

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

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

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

C

California Asset Management Program (CAMP): CAMP is a money market portfolio created for California Public Agencies. Similar to LAIF, CAMP provides daily liquidity, money market returns and unlimited number of deposits and withdrawals. CAMP may hold a broader range of securities that would not be eligible under the City investment criteria. Since CAMP is subject to different statutory investment provisions, any such variances in their holdings are acceptable under this policy

Call Price: The price at which an issuer may redeem a bond before maturity

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

CALTRUST: A Joint Powers Authority created by public agencies to provide a convenient method for public agencies to pool their assets for investment purposes. CalTRUST is governed by a Board of Trustees made up of experienced local agency treasurers and investment officers. The Board sets overall policies for the program and oversees the activities of the investment manager and other agents.

CD Placement Service: A private cd placement service that allows local agencies to purchase more than $250,000 in cds from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS (Certificate of Deposit Account Registry System) is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

Certificate Of Deposit (CD): A time deposit with a maturity evidenced by a certificate See “Non-Negotiable” and “Negotiable” Certificate of Deposit. Large-denomination CDs are typically negotiable.

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

Commercial Paper: Unsecured promissory notes issued to finance short term credit needs, with maturities ranging from 2 to 270 days. Unsecured promissory notes are issued to finance short term credit needs. The paper must be of "prime" quality of the highest ranking, or of the highest letter and numerical rating as provided by Moody's or Standard & Poor's. Eligible paper is further limited to issuing corporations that are organized and operate within the United States, have total assets in excess of $500 million, and have an 'A1-P1' rating for its debt from Moody's or Standard & Poor's.

Comprehensive Annual Financial Report (CAFR): The official annual report for the City. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

Corporate Notes And Bonds: Debt instruments, typically unsecured, issued by corporations, with original maturities in most cases greater than one year and less than ten years. Medium term notes (MTN) are unsecured, corporate and depository institution debt obligations. Allowable medium term notes must be issued by corporations organized and operating within the United States (U.S.) or by depository institutions licensed by the U.S. or any state and operating within the U.S. MTNs must be rated “A” or better by Moody’s or Standard and Poor’s.

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

Credit Rating: Various alphabetical and numerical designations used by institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness. Standard & Poor’s and Fitch Ratings use the same system, starting with their highest rating, of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody’s Investors Service uses Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C, and D. Each of the services use pluses (+), minuses (-), or numerical modifiers to indicate steps within each category. The top four letter categories are considered investment grade ratings.

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 a corporation’s credit will cause the market value of a security to fall, even if default is not expected.

CUSIP Number: The Committee on Uniform Security Information Procedures (CUSIP) Number refers to a security’s identification number assigned to each publicly traded security by the CUSIP Service Bureau operated by Standard & Poor’s for the American Bankers Association. The CUSIP Number is a nine-character identifier unique to the issuer, the specific issue and the maturity, if applicable (the first six characters identifying the issuer, the next two identifying the security and the last digit provides a check digit to validate the accuracy of the preceding CUSIP number).

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

D

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

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

Defeased Bond Issues: Issues that have sufficient money to retire outstanding debt when due so that the agency is released from the contracts and covenants in the bond document.

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

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

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

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

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

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

E

Effective Duration: A measure of the price sensitivity of fixed-income investments, especially for those with embedded option features such as call options. As yields rise, the effective duration of a callable investment rises to reflect the fact that it has become less likely to be called. The more rates rise, the longer the effective duration will become, approaching the duration to maturity. The converse is true in a declining interest rate environment (that is, the more rates fall, the shorter the effective duration will become, approaching the duration to call). For securities without an embedded option, the duration to call, maturity, and effective duration are all the same.

Extendable Notes: Securities with maturity dates that can be extended by mutual agreement between the issuer and investor. When investing in these types of securities, the maturity date plus the stated extendable option must not exceed the time frames that are allowed in California Government Code or the investment policy for the investment type.

F

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

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

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

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

Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac): A United States government sponsored corporation.

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

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

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

Fiduciary: A person who holds something in trust for another and bears liability for its safekeeping.

First Tier Securities: Securities that have received short-term debt ratings in the highest category from the requisite nationally recognized statistical-rating organizations (NSROS), or are comparable unrated securities, or are issued by money market funds, or government securities. [See sec Rules: Paragraph (a)(12) of rule 2a-7]

G

Government Accounting Standards Board (GASB): A standard-setting body, which prescribes standard accounting practices for governmental units.

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

Guaranteed Investment Contracts (GICS): An agreement acknowledging receipt of funds for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest.

H-K

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

Interest Rate Risk: The potential for a decline in bond prices and the market value of bonds in the portfolio, due to rising market interest rates. In general, bond prices vary inversely with interest rates. The change in a bond's price depends on several factors, including its maturity date. In general, bonds with longer maturities are more sensitive to changes in interest rates than bonds with shorter maturities. Similarly, bond funds with longer average portfolio maturities, such as the CalTRUST Medium-Term and Long-Term Accounts, will be more sensitive to interest rate changes than those with shorter average portfolio maturities, such as the CalTRUST Short-Term account.

Investment Agreements: Investment agreements are contracts with respect to funds deposited by an investor. Investment agreements are often separated into those offered by banks and those offered by insurance companies. In the former case, they are sometimes referred to as "bank investment contracts."

L

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

Liquidity Risk: The chance 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): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment. LAIF was created in the California State Treasury by Section 17429 GC. LAIF holds local government funds in trust in a state investment pool in order to provide safety, liquidity and the benefits of the investment pool yield for local government entities invested in LAIF.

M

Market Risk: The price at which a security is trading and could be presumably be purchased or sold.. 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 that affects all securities within an asset class similarly.

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

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

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

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

Mortgage Backed Securities (MBS): Mortgage-backed securities (MBS) are created when a mortgagee or a purchaser of residential real estate mortgages creates a pool of mortgages and markets undivided interests or participations in the pool. MBS owners receive a prorata share of the interest and principal cash flows (net of fees) that are "passed through" from the pool of mortgages. MBS are complex securities whose cash flows are determined by the characteristics of the mortgages that are pooled together. Investors in MBS face prepayment risk associated with the option of the underlying mortgagors to pre-pay or payoff their mortgage. Most MBS are issued and/or guaranteed by federal agencies and instrumentalities (e.g., Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC)).

Mortgage Pass-Through Obligations: Securities that are created when residential mortgages (or other mortgages) are pooled together and undivided interests or participations in the stream of revenues associated with the mortgages are sold.

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

N

National Association Of Securities Dealers (NASD): A self-regulatory organization (SRO) of brokers and dealers in the over the counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Nationally Recognized Statistical Rating Organizations (NSROs): Credit rating agencies whose ratings are permitted to be used for regulatory purposes such as Securities and Exchange Commission.

Negotiable Certificate Of Deposit (NCD): A large denomination certificate of deposit which can be sold in the open market prior to maturity. Generally, it is a 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). These instruments are supported only by the strength of the institution issuing them.

Net Asset Value (NAV): A term used in the mutual fund industry to determine the average price per share of a pool or mutual fund. How this measure varies over time provides information on whether the pool is stable or variable. NAV is the market value of all securities in a mutual fund, less the value of the fund's liabilities, divided by the number of shares in the fund outstanding. Shares of mutual funds are purchased at the fund's offered NAV.

Net Present Value: An amount that equates future cash flows with their value in the present terms.

Non-Negotiable Certificates Of Deposit: Funds deposited in nationally or state chartered bank or state or federal association for a specified period of time at a specified rate of interest. The first $250,000 is guaranteed by the Federal Deposit Insurance Corporation (FDIC) for banks, the Federal Savings and Loan Insurance Corporation (FSLIC) for savings and loan associations and the National Credit Union Share Insurance Fund (NCUSIF) for credit unions. CDs with a face value in excess of $250,000 must be collateralized at 110% of market value with pledged securities of the bank.

Note: A written promise to pay a specified amount to a certain entity on demand or on a specified date. Usually bearing a short-term maturity of a year or less (though longer maturities are issued—see "Medium-Term Note").

O

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

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

Options: A contract that gives the buyer the right to buy or sell an obligation at a specified price for a specified time. Exchange Traded Options are standardized option contracts that are actively traded on the Chicago Board of Exchange on a daily basis, whereas over the counter options are traded directly between the buyer and seller at agreed upon prices and conditions (the former type of option is therefore more liquid than the latter).

P-Q

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: Collection of securities held by an investor.

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

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

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

Prospectus: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC that typically includes information on the issuer, the issuer’s business, the proposed use of proceeds, the experience of the issuer’s management, and certain certified financial statements (also known as an “official statement”).

Prudent Person Rule: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state, the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking an income and preservation of capital.

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

R

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

Reverse Repurchase Agreements: An agreement of one party (for example, a financial institution) to purchase securities at a specified price from a second party (such as a public agency) and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

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

Risk: The uncertainty of maintaining the principal or interest associated with an investment due to a variety of factors.

Rule G-37 Of The Municipal Securities Rulemaking Board: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities.

S

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

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.

Securities & Exchange Commission: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC Rule 15C3-1: See Uniform Net Capital Rule.

Settlement Date: The date when a trade is cleared by delivery of securities against funds

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

Swap: A swap is any financial transaction that involves the simultaneous purchase of a security and the sale of another for the purpose of enhancing an investor's portfolio. Swap transactions of interest to California public investors include portfolio swaps and interest rate swaps.

T

Tax And Revenue Anticipation Notes (TRANS): Notes issued in anticipation of receiving tax proceeds or other revenues at a future date.

Time Deposits: Issued by depository institutions against funds deposited for a specified length of time. Time deposits include instruments such as deposit notes. They are distinct from certificates of deposit (CDs) in that interest payments on time deposits are calculated in a manner similar to that of corporate bonds, whereas interest payments on CDs are calculated similar to that of money market instruments.

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

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

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

Trustee: A financial institution with powers to act in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

U

Underwriter: A dealer that purchases a new issue of municipal securities for resale.

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

U.S. Treasury Obligations: These are debt obligations of the U.S.Government sold by the Treasury Department in the forms of bills, notes, and bonds, for which the full faith and credit of the United States are pledged for the payment of principal and interest. 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.

W-Z

Weighted Average Maturity (WAM): The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years

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

Yield Curve: A graphical representation of the yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.

Zero Coupon Security: A security that is issued at a discount and makes no periodic interest payments. The rate of return consists of an accretion of the principal and is payable at par upon maturity.