



TO: Mayor and Councilmembers

SUBMITTED BY: Luke Rioux, Finance Director

PREPARED BY: Ryan Schwarz, Accountant

SUBJECT: Annual Review and Adoption of City's Investment Policy

RECOMMENDATION:

Adopt Resolution No. 26-__ entitled, "A Resolution of the City Council of the City of Goleta, California Adopting the City of Goleta Investment Policy and Rescinding Resolution No. 25-16."

BACKGROUND:

The City's Investment Policy, created in June 2005, serves as a guide for achieving the City's investment goals and defines strategies, practices, authority, and procedures for managing the City's investment portfolio in accordance with California Government Code (Government Code) Sections 53600-53610, which establish legally permitted investments for local governments statewide.

Annual review and adoption of a local agency's investment policy is a recommended best practice and is a requirement in the City's Investment Policy. It also gives the City Council the opportunity to ensure the policy is consistent with the overall primary objectives, which are in order of priority: safety, liquidity, and yield. The City Council is authorized expressly to invest and manage the City's public funds pursuant to Government Code Section 53600.3. As provided in the Investment Policy, annually the City Council formally delegates authority to the Finance Director/City Treasurer to invest and reinvest funds and to sell or exchange securities for a one-year period, pursuant to Government Code Section 53607.

The City's Investment Policy was last reviewed and adopted by the City Council on June 3, 2025, which included continued investment authority delegated to the Finance Director/City Treasurer. No recommended statutory changes or policy updates were made at that time.

DISCUSSION:

Investment Policy Updates

Staff reviews the City's Investment Policy annually and recommends revisions, as needed, to incorporate policy or statutory changes affecting the City's investment program and daily investing activities. Policy revisions are technical in nature, such as process changes or language clarifications. Statutory changes are updates in state law affecting allowable investments or procedures related to investing activities.

Staff have performed its annual review and are not recommending any policy revisions or statutory changes.

Delegation of Authority

Staff recommends the continued delegation of authority to the Finance Director/City Treasurer. As provided in the Investment Policy, the City Council formally delegates authority to the Finance Director/City Treasurer for one fiscal year period. The management and responsibility for the investment program is delegated to the Finance Director/City Treasurer. Under the authority granted by the City Council, no person may engage in investment transactions covered by the terms of this policy unless directed by the Finance Director/City Treasurer. All investment transactions shall also require the signature of the City Manager or designee and are subject to the authorized investments outlined in the Investment Policy.

The attached Resolution confirms the annual review and delegation of authority to staff to complete investment transactions (Attachment 1). The Investment Policy is provided as Exhibit A to Attachment 1.

FINANCE AND AUDIT STANDING COMMITTEE:

Since no changes were made to the Investment Policy, the Investment Policy was not taken to the Finance and Audit Committee.

FISCAL IMPACTS:

There are no direct fiscal impacts to the City for adopting the City's Investment Policy. The policy conforms to the California Government Code and complies with best practices designed to meet the City's short and long-term cash flow needs by managing safety, liquidity and yield in a prudent manner.

ALTERNATIVES:

Approval of the Investment Policy annually by the legislative body is required by City policy and is a recommended best practice. The Council may request alterations be made to any section if the revisions meet the requirements of the Government Code.

LEGAL REVIEW BY: Isaac Rosen, City Attorney

APPROVED BY: Robert Nisbet, City Manager

ATTACHMENTS:

1. Resolution No. 26-__ entitled, "A Resolution of the City Council of the City of Goleta, California, Adopting the City of Goleta Investment Policy and Rescinding Resolution No. 25-16."

ATTACHMENT 1

Resolution No. 26-__ entitled, "A Resolution of the City Council of the City of Goleta, California, Adopting the City of Goleta Investment Policy and Rescinding Resolution No. 25-16."

RESOLUTION NO. 26-__

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GOLETA, CALIFORNIA, ADOPTING THE CITY OF GOLETA INVESTMENT POLICY AND RESCINDING RESOLUTION NO. 25-16

WHEREAS, On June 20, 2005, the City Council adopted and established a policy regarding the investment of City funds; and

WHEREAS, the City's Investment Policy was last modified on June 3, 2025; and

WHEREAS, staff recommends renewing the delegation of authority to the City Treasurer/Finance Director to manage the City's investment program and engage in investment transactions covered by the terms of the investment policy.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF GOLETA DOES RESOLVE, DETERMINE, AND ORDER AS FOLLOWS:

SECTION 1:

The attached Exhibit A, City of Goleta Investment Policy – Fiscal Year 2026/27, is hereby adopted and incorporated herein.

SECTION 2.

Resolution 25-16, which adopted a previous version of the City of Goleta Investment Policy, is hereby rescinded.

SECTION 3.

The City Clerk shall certify to the adoption of this resolution and enter it into the book of original resolutions.

PASSED, APPROVED AND ADOPTED this 16th day of June 2026.

PAULA PEROTTE, MAYOR

ATTEST:

APPROVED AS TO FORM:

DEBORAH S. LOPEZ
CITY CLERK

ISAAC ROSEN
CITY ATTORNEY

STATE OF CALIFORNIA)
COUNTY OF SANTA BARBARA) ss.
CITY OF GOLETA)

I, DEBORAH S. LOPEZ, City Clerk of the City of Goleta, California, DO HEREBY CERTIFY that the foregoing Resolution No. 26-__ was duly adopted by the City Council of the City of Goleta at a regular meeting held on the 16th day of June, 2026, by the following vote of the Council:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

(SEAL)

DEBORAH S. LOPEZ
CITY CLERK



Statement of Investment Policy

Fiscal Year 2026/27

City of Goleta
Statement of Investment Policy
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City of Goleta
Annual Statement of Investment Policy
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1.0 Purpose

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

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

2.0 Policy

This Statement of Investment Policy ("Policy" or "Investment Policy"), as set forth by the City of Goleta ("City") provides guidelines for prudent investment of the City's cash balances and outlines the policies essential to ensuring the safety and strength of the City's investment portfolio.

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

This Policy is based on principles of prudent money management and conforms to all applicable federal, state and local laws governing the investment of public funds, including the State of California Government Code ("California Government Code").

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

3.0 Scope

(Reference: Code Sections 5922(d), 53601(m))

This investment policy applies to all financial assets and investment activities of the City. These funds are reflected in the City's audited Annual Comprehensive Financial Report (ACFR). If the City invests funds on behalf of another agency and,

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if that agency does not have its own policy, the City's investment policy shall govern the agency's investments. Any additional funds that may be created from time to time shall also be administered within the provisions of this policy and comply with the California State Government Code. This policy covers the investment activities of idle funds under the direct authority of the City.

3.1 Funds Included by this Policy

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

3.2 Pooling of Funds

Except for cash in certain restricted and special funds, the City shall consolidate cash balances from all funds to maximize investment earnings. Investment income shall be allocated to various funds as identified in the investment procedures manual in accordance with generally accepted accounting principles.

3.3 Investments Held Separately

In some instances, investments cannot be included in the City's investment pool. These may include investments of bond proceeds. In such cases the funds will be held separately when required by law, contract or other authority. Pursuant to California Government Code Sections 5922(d) and 53601(m), such proceeds are invested in accordance with permitted investment provisions of their specific bond indentures. Funds held in bond proceeds accounts are reported in the City's Monthly Investment Report. The City's Policy does not apply to funds held in trust in the City's name in pension and other post-retirement benefit programs.

4.0 Prudence

(Reference: Code Sections 53600.3, 53646, 27000.3)

The City Treasurer is authorized to make investment decisions on behalf of the City investing public funds subject to the prudent investment standard. The Prudent Investor Standard of the California Government Code Section 53600.3 states, "when investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated need of the [City], that a prudent person in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain

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the liquidity needs of the [City]”. The standard of prudence to be used by investment officials shall be applied in the context of managing the overall portfolio.

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

5.0 Objectives

(Reference: Code Section 53600.5)

It is the policy of the City to invest public funds in a manner which will provide for preservation of capital while meeting the daily cash flow requirements of the City and attaining a market average rate of return within an acceptable and defined level of risk.

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

5.1 Safety (Preservation of Capital)

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

5.1.1 Credit Risk

Credit risk is the risk of loss of principal and accrued interest due to the failure of the security issuer. Credit risk can be mitigated by:

- Limiting investments to the safest types of securities. Nationally recognized ratings services will be utilized whenever possible to scrutinize the creditworthiness of investments.
- Pre-qualifying accountants, auditors, financial institutions, broker/dealers, financing advisors, and other outside consultants with which the City does business.

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- Diversifying the investment portfolio so that potential losses are minimized.

5.1.2 Interest Rate Risk

Interest rate risk is the risk that the market value of securities will fall due to a rise in general market interest rates. It is the policy of the City to hold individual securities to maturity. Interest rate risk can be mitigated by:

- Holding individual securities to maturity – Structuring the investment portfolio so that securities mature to meet cash flow requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Employing a laddering strategy, as appropriate and as market conditions allow for, whereby staggering maturities of individual securities so the investments come due in increments assuring a stable liquidity pattern.
- Limiting maturities of individual securities and the average maturity of the overall portfolio.

5.2 Liquidity

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. Liquidity also refers to the ability to convert an investment to cash without loss of principal and minimal loss of interest. The City is required to include a statement in the Monthly Investment Reports indicating that the projected cash flow is adequate to meet expected obligations over the next six months or provide an explanation as to why sufficient money may or may not be available. Cash, cash equivalents, and highly liquid investments that are immediately available and carry minimal interest rate risk must comprise of at least 50% of the City's total cash and investment holdings.

5.3 Yield (Return on Investment)

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

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

6.0 Delegation of Authority

(Reference: Code Sections 41006, 53607, City of Goleta Municipal Code Section 2.05)

Authority to manage the City's investment program is derived from the California Government Code Sections 53600 through 53609 and provides the authority for the legislative body of the local agency to invest the funds of the local agency or delegate the authority to the Treasurer of the local agency. Such delegation is to be reviewed annually and may be renewed by the City Council.

The management of idle cash and the investment of funds identified in paragraph 3(A) is the responsibility of the Finance Department. The Finance Department is under the control of the Finance Director and appointed by the City Manager as the City Treasurer in accordance to City of Goleta Municipal Code Section 2.05.

Management responsibility for the investment program is hereby delegated to the Finance Director (City Treasurer) as directed by the City Council, for a one-year period by the City Council. Subject to review, the City Council may renew the delegation of authority under this code section each year. Under the authority granted by the City Council, no person may engage in an investment transaction covered by the terms of this policy unless directed by the City Treasurer.

In the execution of this delegated authority, the City Treasurer may establish accounts with qualified financial institutions and brokers/dealers for the purpose of effecting investment transactions in accordance with this policy. The criteria used to select qualified financial institutions and brokers/dealers are identified in Part 11 of this policy.

All financial transactions, including wiring instructions, must be identified in advance and approved in writing by the City Treasurer or designee. All investment transactions in excess of \$100,000 (except for deposits or withdrawals from the LAIF and bank deposits) shall also require the signature of the City Manager or designee.

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The City Treasurer shall establish written procedures for the operation and management of the City's investment portfolio consistent with this Policy. The procedures should include reference to safekeeping, wire transfer processes, banking service contracts, and collateral or depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in any investment transactions except as provided under the terms of this Policy and the investment procedures established by the City Treasurer.

This delegation of authority shall be in effect for one fiscal year. The City Council may renew the authority annually and may revoke the authority at any time.

7.0 Ethics, Public Trust and Conflicts of Interest

(Reference: Code Section 1090, Political Reform Act)

All participants in the City's investment process shall act responsibly as custodians of the public trust. Treasury staff shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worth of public trust.

Elected officials and employees of the City involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment recommendations and decisions under the Political Reform Act and Government Code Section 1090 et seq.

Elected officials and employees shall make all disclosures appropriate under the Fair Political Reform Act and shall seek and follow the advice of the City Attorney and the Fair Political Practices Commission whenever there is a question of personal, financial or investment positions that could represent potential conflicts of interest.

All persons, firms, broker/dealers, financial institutions, and advisors providing investment services or bond issue assistance shall disclose to the City Manager and City Treasurer all fee sharing, fee-splitting and commission arrangements with other entities or persons prior to the City agreeing to buy an investment or issue bonds.

8.0 Authorized Financial Institutions and Broker/Dealers

(Reference Code Section 53601.5, SEC Net Capital Rule 15C3-1)

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Authorized Financial Institutions and Broker/Dealers defined under California Government Code Section 53601.5 shall be allowed to conduct business with the City and are defined as an institution licensed by the State of California as a broker/dealer, as defined in Section 25004 of the California Corporations Code, or a member of a federally regulated securities exchange, a national or state chartered bank, a savings associated or federal association or a brokerage firm designated as a primary government dealer by the Federal Reserve Bank.

Investments shall be purchased only through well-established, financially sound institutions. All financial institutions and broker/dealers who desire to become qualified vendors for investment transactions will be given a copy of the City's investment policy and certification form. The completion and submission of the certification form by a broker-dealer or financial institution shall constitute proof that it has received the City's Statement of Investment Policy, read it, and intends to comply with it. Qualified financial institutions must provide current audited financial statements and provide either verification of a federal or a state charter or of being an eligible institution per the California Government Code. Broker/dealers must provide current audited financial statements and verification that the firm is in good standing with one of national securities exchange that is registered with the Securities Exchange Commission.

The financial entities eligible to transact banking services and investment business with the City are:

8.1 Banking Services (Public Depository)

Banking services for the City shall be provided by FDIC insured banks approved to provide depository and other banking services. To be eligible the City shall only deposit public monies in financial institutions that have: (1) at least \$500 million in total assets; (2) a core capital-to-total assets ratio of at least five percent; (3) favorable ratings from a recognized financial institution rating service, as determined by the City Treasurer; (4) a federal or a state charter; or are eligible institutions per the California Government Code and (5) a branch office within Santa Barbara County.

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

The City Treasurer shall maintain an Approved List of all commercial banks and all savings and loan associations which may serve as public depositories of City monies. That list will be reviewed by the Finance and Audit Standing Committee within three months of modifying the list and subject to a banking services agreement.

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8.2 Federal Reserve Bank

Direct purchase of U.S. Treasury Bills, Notes, and Bonds using primary government dealers as designated by the Federal Reserve are exempt from quality requirements and are encouraged due to commission or mark-up discounts.

8.3 Authorized Financial Institutions – Nationally or State Chartered Banks, Savings and Loans and Credit Unions

The City will maintain a list of financial institutions authorized to provide investment services. The City may purchase investments offered from Banks, Savings and Loans and Credit Unions provided the institutions are:

- Nationally or State Chartered Institutions
- Registered as investment securities dealers

8.4 Authorized Broker/Dealers

The City will maintain a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of California. These may include primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

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

- Qualify for SEC Rule 15c3-1 (uniform net capital rule) as a primary or regional dealer
- Current audited financial statements from most frequent year
- Proof of Financial Industry Regulatory Authority (FINRA) certification, trading resolution, proof of State of California registration
- Completed City of Goleta broker-dealer questionnaire, which contains a certification of having read, understood and agreeing to comply with the City's Investment Policy and California Government Code Section 53600 et seq. and that all securities offered to the City shall comply fully with all provisions of the City's Investment Policy and the California Government Code.

The City Treasurer or designee, will conduct an annual review of the financial condition and registration of the firms providing investment services to the City.

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8.5 Third Party Investment Advisor

If a third-party investment advisor is authorized to conduct investment transactions on the City’s behalf, the investment advisor may use their own list of approved broker/dealers and financial institutions. The investment advisor’s approved list must be made available to the City upon request.

9.0 Authorized and Suitable Investments

The City Treasurer may invest City funds in the following instruments as specified in California Government Code, Sections 53600 et seq., and as further limited in this policy. The following table summarizes the investment types authorized by the City’s Investment Policy. In the event a discrepancy is found between this policy and California Government Code, the more restrictive parameters will take precedence.

9.1 Authorized Investment Types

Authorized Investment	Max Maturity	Max Limits	Minimum Quality	Govt. Code	Other Policy Constraints
Local Agency Bonds	5 years	None	None	53601(a)	Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.
U.S. Treasury Obligations	5 years	None	None	53601(b)	Notes, bonds, bills
State Obligations— CA And Others	5 years	None	None	53601(c) 53601(d)	Can include U.S. state obligations issued outside of California, only as permitted in 53601(d).
CA Local Agency Obligations	5 years	None	None	53601(e)	Local obligations include California based issuing agencies only, subject to 53601(e). The City cannot directly purchase City or affiliate debt securities
U.S Agency Obligations (GSE's)	5 years	20% of portfolio; 10% single issuer	None	53601(f)	Federal Agency or U.S. Government sponsored enterprise obligations, participations or other instruments. Includes: FNMA, GNMA, FHLMC, FHLB, FFCB, FAMCA, TVA.
Commercial Paper— Non-Pooled Funds (under \$100,000,000 of investments)	270 days or less	20% of portfolio; 10% single issuer;	Highest letter and number rating by an NRSRO	53601(h)(2)(c)	Issuing corporation must be organized and operating within the U.S., have assets in excess of \$500 million
Negotiable Certificates of Deposit	5 years	20% of portfolio	Amounts up to	53601(i)	Issued by nationally or state-chartered banks; savings or federal

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		\$250,000 principal invested, single issuer	\$250,000 per institution must be insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Association (NCUA).		associations (as defined in Financial Code Section 5102); state or federal credit unions; or federally licensed or state licensed branches of foreign banks. Includes Brokered CDs under Master CD that is a negotiable instrument.
Non-negotiable Certificates of Deposit	5 years	20% of portfolio \$250,000 principal invested, single issuer	Amounts up to \$250,000 per institution must be insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Association (NCUA).	53630 et seq.	Issued by nationally or state-chartered banks; savings or federal associations (as defined in Financial Code Section 5102); state or federal credit unions; or federally licensed or state licensed branches of foreign banks.
Placement Service Deposits	5 years	20% of portfolio (inclusive of placement service CDs)	None	53601.8 and 53635.8	Includes Federally Insured Cash Account (FICA)
Placement Service Certificates of Deposit	5 years	20% of portfolio (combined with negotiable CDs)	None	53601.8 and 53635.8	Includes Certificate of Deposit Accounting Registry System (CDARS)
Medium-Term Corporate Notes	5 years	20% of portfolio Single issuer: 5% for issuers rated "AA" 3% for issuers rated "A"	"AA" or "A" rating category or its equivalent or better by two NRSRO	53601(k)	Must be issued by a corporation that is 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.
Mutual Funds and Money Market Mutual Funds	N/A	20% of portfolio	Fund must have the highest ranking by not less than 2 NRSRO	53601(l) and 53601.6(b)	See section 11.1 for more information.
Collateralized Bank Deposits	5 years	None	None	53630 et seq. and 53601(n)	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.
County Pooled Investment Funds	N/A	None	None	27133	Includes the County of Santa Barbara Treasurer's Investment Pool
Joint Powers Authority Pool	N/A	None	"AA"	53601(p)	A joint powers authority pool must retain an investment advisor registered with the SEC, have assets under management in excess of \$500 million, and have at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o). Includes Investment Trust of California, a Joint Powers Authority, doing business as CalTRUST.
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1	Subject to LAIF imposed maximum. \$75 million as of 1/1/20.

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Bank Deposits (Operating Cash)	N/A	No limit	Satisfactory rating from national bank rating service and Community Reinvestment Act review per Code Section 53635.2. Must be an institution participating in the California Local Agency Security Program, providing for 110% collateralization of public funds.	53635.2 53649,53638	Amounts up to \$250,000 per institution are insured by the FDIC. Amounts over the insurance limit are subject to collateralization requirements outlined in Section 12 and appropriate Code sections.
Collateralized or FDIC Insured					

9.2 Unauthorized Investments

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

10.0 Review of Investment Portfolio

The securities held by the City must follow Section 9.0 Authorized and Suitable Investments at the time of purchase. Because some securities may not comply with Section 9.0 after the date of purchase, the City Treasurer or designee, shall at least quarterly review the portfolio to identify those securities that do not comply. The City Treasurer shall establish procedures to report to the City Council and Finance and Audit Standing Committee, major and critical incidences of noncompliance identified through the review of the portfolio.

If securities owned by the City are downgraded to a level below the quality required by this Policy, the City Treasurer or designee shall review the credit situation and make a determination as to whether sell or retain such securities in the portfolio.

In addition, the percentage ownership limitations as shown in Section 9.0 are evaluated at the time of investment purchase. Should the investment percentages exceed those limitations over time due to unforeseen fluctuations resulting in changes in portfolio values or holdings, the City Treasurer or designee will evaluate monthly to determine if corrective action is necessary.

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Should any other condition arise or exist after the purchase of a security that renders the security out of compliance with the Policy, the City Treasurer will evaluate monthly to determine if corrective action is necessary.

The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions, the City's risk preferences, and to address securities that no longer meet the parameters required in Section 9.0. However, the City may not engage in active trading or speculation at any time.

11.0 Investment Pools and Money Market Mutual Funds

(Reference: Code Sections 16429.1 et sec., 27133, 53601(p), 53601, 53635)

Investment pools and money market mutual funds include the Local Agency Investment Fund (LAIF), the County of Santa Barbara's Pooled Treasury Investment Funds, the Investment Trust of California (dba, CalTRUST), and shares of beneficial interest issued by authorized diversified management companies (money market mutual funds). A thorough investigation of the pool or fund is required prior to investing, and on a periodic basis while funds are invested.

11.1 Investment Pools

Government sponsored investment pools (Pools) are permitted under California Government Code Section 53601 and are an excellent short-term investment option for cash management. There shall be a questionnaire developed which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced, and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- A description of how the pool/fund maintain reserves, retained earnings etc., or is all income after expenses distributed to participants.
- A fee schedule, and when and how it is assessed.

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- The eligibility of the pool/fund to invest in bond proceeds and a description of its practices.

The Pool must also publish timely monthly information which will include performance results, portfolio maturity statistics and credit rating, as applicable. The information shall also include a detailed list of investment holdings, including market value, maturity, and credit rating for each security.

11.2 Money Market Mutual Funds

Money market mutual funds provide a safe, liquid, and diversified investment option for the City's surplus funds; however, certain conditions need to be met both initially and on an ongoing basis. The City is not permitted to invest in mutual funds other than money market mutual funds. Money market mutual funds held by the City may only invest in US Government securities permitted under this Policy and under Code Section 53601 et seq. with final stated maturities of one year or less.

To be an eligible money market investment under this section, the primary objective of the money market, as stated in the fund's prospectus, is to maintain a constant \$1.00 Net Asset Value (NAV). The following additional guidelines include but are not limited to those provided for in Rule 2A-7 of the Investment Company Act and Code Section 56001(l)2:

- Only invests in US Government securities, and the weighted average maturity of the portfolio is less than 60 days
- The fund shall be registered with the SEC
- The fund shall have a minimum of \$500 million in total asset size at time of investment and should not drop below this threshold
- The fund must have retained an investment advisor registered or exempt from registration with the SEC with 5 years' experience managing money market funds more than \$500 million
- The money market shall have attained the highest ranking, or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations (NRSRO) and shall maintain these ratings for the duration of the investment

12.0 Collateralization

(Reference: Code Sections 53601, 53630, 53649, 53652, 53653, 53656, 53657)

12.1 Investments

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

The City will only place in a certificate of deposit that amount of principal which is covered by FDIC or NCUA insurance (per Government Code Section 53653).

12.2 Cash in Bank Depository Accounts

Cash in depository accounts must be placed with financial institutions participating in the California Local Agency Security Program, providing for collateralization of public funds invested in government securities, and pursuant to a contract with the depository meeting the requirements of Government Code Section 53649. The financial institution must have also received a satisfactory rating from national bank rating service and from Community Reinvestment Act review per Government Code Section 53635.2.

All active and inactive deposits must always be secured with eligible government securities in securities pools pursuant to Code Sections 53656 and 53657, at 110% of market value per Section 53652. Per Code Section 53638 deposits may not exceed bank shareholder equity; total net worth of depository savings or federal association; unimpaired capital and surplus of a credit union; unimpaired capital and surplus of industrial loan companies. The Treasurer may waive collateral for the portion of any deposits insured pursuant to federal law.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. The right of collateral substitution is granted, within the parameters and constraints of this Policy.

13.0 Safekeeping and Custody

(Reference: Code Section 53608)

To protect against fraud, embezzlement, or losses caused by a collapse of an individual securities dealer, all securities owned by the City shall be held in safekeeping by a third-party bank trust department, acting as an agent of the City under the terms of a custody agreement. All security transactions entered by the City shall be conducted on a delivery-vs.-payment (DVP) basis. Securities owned by the City, (except the collateral for certificates of deposit in banks and/or savings

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and loans) shall be held by a third-party custodian/safekeeping account designated by the City Treasurer and evidenced by safekeeping receipts. Said securities shall be held in a manner that establishes the City's right of ownership. The only exception to the foregoing shall be depository accounts and security purchases made with: LAIF, other investment pools, time certificates of deposit and money market mutual funds held directly with issuing institution, since the purchased securities are not deliverable.

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

14.0 Diversification

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

The portfolio instrument composition shall be diversified to the extent feasible to avoid incurring unreasonable and avoidable risks regarding specific security types indicated in Section 9 of this investment policy. No more than ten percent (10%) of the value of the City's portfolio will be placed with any single issuer, except for the U.S. Treasury/Federal agency securities, authorized pools, and collateralized investments, and cash held in bank depository account. No more than 20% of the City's investment portfolio will be invested in a single security type, except for U.S. Treasury securities, authorized agency investment pools, and collateralized bank deposits.

15.0 Maximum Maturities

(Reference: Code Section 53601)

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Maturities will be selected based on cash flow projections that facilitate selecting investment maturity dates to match the projected expenditures.

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A policy of laddered portfolio shall be followed for pooled investments. At least thirty-five percent (35%) of the portfolio value shall be invested in instruments maturing within one year from the investment date. No more than twenty-five percent (25%) of the entire portfolio value shall have a maturity date between three (3) and five (5) years from the investment date, unless the City Treasurer can demonstrate via a comprehensive cash-flow analysis that higher percentages allow the City to meet its cash-flow requirements. Investments having a maturity greater than five (5) years shall not be made unless matched to a specific cash flow and approved by City Council.

The weighted average maturity of the investment portfolio must be less than two and half (2.5) years. This calculation will be provided in the Monthly Investment Transaction Report.

In addition, the City Treasurer or designee shall strive to maintain operating cash of an amount no greater than 10% of total City cash and investments, in order to maximize interest earnings while managing liquidity needs.

16.0 Internal Controls

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

16.1 Annual Review and Audit

An annual review and audit of the City's Investment Policy, practices, procedures and portfolio status will be conducted by an independent auditor. This review will provide internal control by assuring compliance with policies and procedures. The auditor will provide the City with written observations and recommendations regarding the adequacy of investment controls. The Treasurer will oversee the implementation of any corrective actions indicated by the auditor in a timely fashion and will provide a written report of those actions to the City Manager.

16.2 Segregated Investment Execution, Recordkeeping and Reporting

An independent member of City staff will record the Treasurer's investment records or confirmations to the City's general ledger. In addition, independent staff will perform the monthly reconciliation of bank,

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broker/dealer, and safekeeping confirmations and will include the following:

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

16.3 Wire Transfer Controls

All City wire transfers will be executed in accordance with written operating procedures specifying controls required for wire transfers of funds, including the establishment of repetitive (“templated”) wires to settle securities transactions. All wire transfers require three Finance staff or employees to initiate, approve, and release each transaction. Two factor authentication is required for each individual to engage in the wire release process, which includes unique passwords, and the use of bank security phone call verification. Final release of all wires from the City, investment or otherwise, require the approval of either the City Treasury or City Manager. The City Treasurer is responsible for ensuring that investment trade settlement occurs in a timely manner and that execution confirmations reflect accurate trade data.

17.0 Performance Standards

17.1 Investment Strategy

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

17.2 Benchmark

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The City shall use the LAIF apportionment rate, the 1-year U.S. Treasury Note, the 2-year U.S. Treasury Note or compare other average Constant Maturity Treasury (CMT) whose maturity most closely matches the weighted average maturity of the portfolio. These rates will serve as useful benchmarks to measure whether or not the City's portfolio net yields are matching or surpassing the market yields. The benchmarks and investment performance will be reviewed by the Finance and Audit Standing Committee as market conditions warrant or when the benchmarks are not met for a consecutive one-year period.

Calculation of the City's return on the investment portfolio for purposes of performance standard comparisons shall not include operating cash or equivalents.

18.0 Investment Reporting

(Reference: Code Sections 53607 and 53646 (b))

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

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

So long as the City Council's annual delegation of investment authority to the City Treasurer pursuant to Government Code Section 53607 is effective, the Treasurer shall make the above-described reporting of all investment transactions to the City Council.

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19.0 Statement of Investment Policy Compliance and Adoption

(Reference: Code Section 53646)

The City's investment policy shall be adopted by resolution annually by the City Council. The policy shall be reviewed annually first by the Finance and Audit Standing Committee and by the City Council. Any modifications to the investment policy must be approved by the City Council. The City Council has charged the City Treasurer and designated staff with the responsibility to review and to recommend updates to the Policy.

The City Treasurer shall establish written Investment Policy internal procedures for the operations of the investment program consistent with this Policy. The procedures should include reference to safekeeping, wire transfer agreements and procedures, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures.

20.0 Exceptions

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

21.0 Glossary of Investment Terms

Active Management Strategy: Investment strategy based on a manager or a team of managers actively managing a fund's portfolio with the goal of outperforming benchmarks through analytical research, forecasts, and their own judgment and expertise.

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, which include: Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bank (FFCB), Federal Agricultural Mortgage Association (Farmer Mac), Government National Mortgage Association (GNMA), and the Tennessee Valley Authority (TVA).

Annual Comprehensive Financial Report (ACFR): The official annual financial report for the City. It includes government wide and fund financial statements prepared in conformity with Generally Accepted Accounting Principles (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

Asset-Backed Securities (ABS): Securities that are supported by pool 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.

Bank Deposits: 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 (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Basis Points: Refers to the yield on the 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 a rate of 14 basis points.

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

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

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

Brokered Certificate of Deposit (CD): Brokered CD is a certificate of deposit that is purchased through a brokerage firm or from a sales representative other than a bank. Brokered CDs purchased through a broker dealer are part of a Master CD that is a negotiable instrument. Political subdivisions are entitled to its own insurance coverage and FDIC limits apply of up to \$250,000. They are issued in book entry form to track ownership and use the CUSIP system for identification and trading in the primary and secondary market. Some may have callable options, similar to bonds.

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

Call Option: The terms of the bond contract giving the issuer the right to redeem or call an outstanding issue of bonds prior to its stated date of maturity.

Call Risk: The risk to a bondholder that the bond issuer will exercise a callable bond feature and redeem the issue prior to maturity.

Callable Securities: An investment security that contains an option allowing the issuer to retire the security prior to its final maturity date.

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

Certificates of Deposit (CD): Large denomination (\$100,000 or more) interest bearing time deposits, paying the holder a fixed amount of interest at specific maturity. Larger-denomination CD's are typically negotiable. Funds usually cannot be withdrawn before maturity without giving advance notice and normally without a penalty.

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Certificate of Deposit Account Registry Service (CDARS): 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).

City Treasurer: The Finance Director serves as the City Treasurer, as appointed by the City Manager.

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

Constant Maturity Treasury (CMT): An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range

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

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

CUSIP Number: A nine-digit number established by the Committee on Uniform Securities Identification Procedures that is used to identify publicly traded securities. Each publicly traded security receives a unique CUSIP number when the security is issued.

Custody: A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

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

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

Delivery versus Payment (DVP): There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is the delivery of securities with an exchange of money for the securities. Delivery

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versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

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

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

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

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

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

Federal Funds Rate: The rate of interest at which Federal funds are traded. The Federal Reserve through open-market operations currently set this rate. It is also known as the federal funds target rate or the fed funds rate to guide overnight lending amount U.S. banks. It's set as a range between an upper and lower limit and influences borrowing and interest rates.

Federally Insured Cash Account (FICA): A proprietary cash management vehicle by StoneCastle Partners. It is an FDIC insured Liquid Structured Bank Deposit Vehicle. A deposit placement security.

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

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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 which consists of a seven-member Board of Governors, 12 regional banks, and 5,700 commercial banks that are members.

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

Government Accounting Standards Board: A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

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

Investment Trust of California: In 2005, the CSAC Finance Corporation and the League of California Cities established the Investment Trust of California (CalTRUST) as a Joint Powers Authority in conjunction with public agencies in California for the purpose of pooling and investing local agency funds.

Liquidity: Refers to the ability to rapidly convert an investment into cash.

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

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

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

Market Average Rate of Return: For purposes of this Policy, the market average rate of return is defined as the average CMT (Constant Maturity Treasury) whose maturity most closely matches the weighted average maturity of the portfolio, or the current period average annual LAIF yield. Such measurements will be undertaken based upon the most recent month's reported data as shown in the Monthly Investment Report.

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Mark-to-Market: The process whereby the book value or collateral value of a security is adjusted to reflect its current fair market value. The City applies fair value adjustments at fiscal year-end in the City's financial statements in accordance with Government Accounting Standards Board Statement No. 72, "Fair Value Measurements and Application", which provides the framework for measuring fair value.

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

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

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase - 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 the principal or stated value of an investment becomes due and payable.

Medium Term Note: For purposes of this Policy, a medium-term note (MTN) refers to a note payable issued by a Corporation that comes with a maturity date that is within five years.

Money Market Deposit Accounts: These accounts are also referred to as Money Market savings accounts and can offer both savings and checking account. Funds can earn interest while still being able to withdraw or transfer funds. These deposit accounts are FDIC or NCUA insured or fully collateralized if holding government deposits.

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

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 credit

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rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

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

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 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.

Passive Investment Strategy: A buy and hold investment strategy. Investments are purchased with the intent and capacity to hold them until maturity. At times, market forces or operations may dictate exchanging one security for another or selling a security before maturity. This passive investment strategy is different from one in which securities are purchased with the intent to sell them before maturity at a profit or the use of leverage to enhance yield.

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

Portfolio: Collection of securities held by an investor.

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

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

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

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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 a reasonable income and preservation of capital. As to the City, the prudent investor standard is established by, and specifically described in, California Government Code Section 53600.3. See Section 4.0 of this investment policy.

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 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 or the current income return.

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. Exception: When the Fed is said to be doing RP, it is lending money that is increasing bank reserves.

Rule 2A-7 of the Investment Company Act: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of \$1.00.

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

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

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

SEC Rule 15C3-1: See uniform net capital rule.

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Supranationals: A supranational organization is formed by a group of countries through an international treaty with specific objectives such as promoting economic development. Supranational organizations also issue debt in the United States. The most recognized supranational debt is the International Bank for Reconstruction and Development (IBRD or World Bank), International Finance Corporation (IFC) and Inter-American Development Bank (IADB). The City currently does not allow investments in Supranationals, but it's an allowable investment option under State law, as outlined in Section 9.0.

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

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

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

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

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

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

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as non-member 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

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margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

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

Volatility: A degree of fluctuation in the price and valuation of securities.

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