

CITY OF FONTANA

STATEMENT OF INVESTMENT POLICY 2025-2026

**Certified by the Association of Public Treasurers of the
United States and Canada (APT US&C)**

**Prepared by the Finance Department Lisa Conlon,
Revenue Operations Manager
Reviewed and Approved by
Janet Koehler-Brooks, City Treasurer**

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I. OVERVIEW

INTRODUCTION

The purpose of this document is to provide guidelines for the prudent investment of the unexpended cash in the City's treasury and outline policies for maximizing the efficiency of the City's cash management system. The ultimate goal is to enhance the economic status of the City while protecting its pooled cash.

SCOPE

Included in the scope of the City's investment policy Funds excluded from this policy include proceeds of debt issuance, retirement/pension funds and deferred compensation funds, and pension or other post-employment benefit funds held in a trust are the following major guidelines and practices which are to be used in achieving the City's primary investment objectives:

- ❖ Investment Authority and Responsibilities
- ❖ Eligible Financial Institutions
- ❖ Authorized Investments
- ❖ Investment Maturities
- ❖ Cash Management
- ❖ Evaluation of Investment Performance
- ❖ Investment Reporting
- ❖ Investment Policy Review and Adoption

It is intended that this policy cover all funds and investment activities under the direct authority of the City. These funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR) and include the general fund, special revenue funds, debt service funds, capital project funds, enterprise funds, internal service funds and agency funds.

OBJECTIVES

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City attempts to obtain the highest **yield** obtainable as long as investments meet the criteria established for **safety** and **liquidity**.

Criteria for selecting investments in the order of priority are:

1. **Safety.** The safety and risk associated with an investment refers to the potential loss of principal, interest, or a combination of these amounts. The City shall invest in a manner that seeks to avoid capital losses resulting from institution default or the erosion of market value.
2. **Liquidity.** This refers to the ability to convert an investment into cash with a minimal risk of losing some portion of principal or interest. Liquidity is an important investment quality, especially when the need for unexpected funds occurs occasionally.
3. **Yield.** Yield is the potential dollar earnings an investment can provide and becomes a consideration only after the basic requirements of safety and liquidity have been met.

Portfolio diversification in terms of maturity, instrument types and issuer help minimize the overall risk while maximizing the market rate of return. Therefore, the portfolio should consist of a mix of various types of securities, issuers and maturities as long as the selection and retention are prudent. Occasional measured losses are inevitable and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

The City operates its pooled cash investments under the "Prudent Investor Standard" described in California Government Code §53600.3 as follows:

"Except as provided in subdivision (a) of Section 27000.3, all governing bodies of local agencies or persons authorized 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. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

All participants in the investment process shall act as custodians of the public trust. Investment officials 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 worthy of the public trust.

II. INVESTMENT AUTHORITY AND RESPONSIBILITIES

AUTHORIZED INVESTMENT OFFICERS

Cash management and investment transactions are the responsibility of the Chief Financial Officer or designee. The City Council has authorized the following officials to undertake investment transactions on behalf of the City:

City Manager
Chief Financial Officer/Deputy City Treasurer
Deputy Finance Officer
Accounting Manager
Revenue Operations Manager

Daily portfolio management responsibilities have been delegated to the Chief Financial Officer/Deputy City Treasurer.

The City may retain the services of an outside investment advisor or manager as approved by the City Council to assist with the City's investment program who shall retain full liability for and make all investment decisions and transactions in strict accordance with State Law, this Policy and such other written instructions as are provided.

INVESTMENT REVIEW COMMITTEE

At least quarterly, the Investment Review Committee, consisting of the City Treasurer, Chief Financial Officer/Deputy City Treasurer, Deputy Finance Officer, Accounting Manager and Revenue Operations Manager shall meet with the investment advisor or manager to discuss the status of current investments, strategies for future investments, and other matters deemed relevant, and shall report to the City Council as necessary.

INVESTMENT PROCEDURES

The Chief Financial Officer/Deputy City Treasurer has established investment procedures which:

- ❖ Adhere to the Statement of Investment Policy
- ❖ Prioritize safety and liquidity
- ❖ Determine risk and optimizes return
- ❖ Provide for a system of due diligence in making investment decisions.

In order to accomplish these goals, a "Model" investment portfolio has been designed to provide the strategic framework for supervising and reporting on the investment portfolio.

The model was developed according to this policy's maturity guidelines and is used to facilitate decisions regarding security transactions. Each security selection recommended by the investment advisor or manager shall be designed to move the actual portfolio toward the model portfolio without taking any immediate losses.

No person authorized to conduct investment transactions (including investment advisor or manager) shall engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Chief Financial Officer/Deputy City Treasurer.

All investments selected under this policy, including any investments in foreign securities or currency, must be held with a financial institution that is subject to the jurisdiction of the laws and courts of the United States.

INTERNAL CONTROL

The Finance Department is responsible for ensuring compliance with the City's investment policy as well as for establishing systems of internal control designed to monitor the activities of any appointed investment advisor or manager, so as to prevent loss due to fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by the investment advisor or manager, city officers and employees. Timely bank reconciliations are conducted to ensure proper handling of all transactions.

An independent analysis by an external auditor shall be conducted annually to review internal control and compliance with policies and procedures. The Finance Department shall promptly review and eliminate any material weaknesses or significant deficiencies not considered to be material weaknesses that are identified in the City's latest audit report.

CONFLICTS OF INTEREST

The City adopts the following policy concerning conflicts of interest:

1. Officers, investment advisor(s) or manager(s), and employees involved in the investment process shall not conduct personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.
2. Officers, investment advisor(s) or manager(s), and employees involved in the investment process shall disclose to the City Clerk any material financial interests in financial institutions that conduct business with the City of Fontana, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio.

III. ELIGIBLE FINANCIAL INSTITUTIONS

SELECTION OF ELIGIBLE FINANCIAL INSTITUTIONS

In selecting financial institutions for deposit or investment of funds, the Finance Department shall consider the creditworthiness of the institution.

1. Deposits. The City will only deposit funds with an institution that has a rating of at least "A" as assigned by an established rating service based on quarterly financial information provided by the Federal Reserve Board and the Federal Home Loan Bank Board (i.e., The Financial Directory). Ratings will be monitored on a quarterly basis and any downgrade in rating below "A" will be reported to the Investment Review Committee together with a recommendation for possible action.
2. Brokers/Dealers. Investments must be purchased directly from the issuer, from an institution licensed by the state as a broker-dealer, from a member of a federally regulated securities exchange, or from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank.

All financial institutions which desire to do business with the City must supply the Finance Department with the following:

- ❖ Completed broker/ dealer questionnaire including certification that the financial institution has reviewed and will comply with the City's Statement of Investment Policy and applicable California Government Code sections and that it will exercise due diligence in informing the City of all foreseeable risks associated with financial transactions conducted with the firm.
- ❖ Certified financial statements.
- ❖ Resumé of the primary representative who will be dealing with the City.

The Deputy City Treasurer shall review the information submitted and designate the institution as either eligible or ineligible for City investment transactions. The City will only do business with those institutions designated as "eligible"; however, an "eligible" designation does not guarantee that the City will do business with that institution.

A current audited financial report prepared by an independent certified public accountant shall be submitted to the City annually within six (6) months after the end of the institution's fiscal year in order for the institution to remain on the "eligible" list. Within the context of the City's policies regarding portfolio limitations, investment transactions shall be distributed as evenly as possible between financial institutions.

If the City has an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of the City. The advisor shall make available its list of authorized broker/dealers to City staff upon request and shall provide the City with advance written notice regarding its engagement or termination of any broker/dealer.

SAFEKEEPING AND CUSTODY

The City shall enter into an agreement with a bank trust department or regulated financial services company providing trust services to serve as the safekeeping agent for all direct investments. The safekeeping agent shall hold all investments in an account for the sole benefit of the City.

All security transactions, including collateral requirements, shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian and evidenced by safekeeping receipts.

IV. AUTHORIZED INVESTMENTS

INVESTMENT TYPES

Investment of City funds is governed by the California Government Code Sections 16429.1 and 53601. Investments may not have a term or maturity at the time of investment of longer than that authorized by Section 53601 or five (5) years (measured by settlement date) unless the City Council has granted express authority, no less than three (3) months prior to the investment, for a specific investment to exceed such limit.

It should be noted that while the Government Code specifies the maximum percentage of the portfolio which may be held in each type of investment at any one time, fluctuations in the portfolio balance will prevent strict adherence to such restrictions. Therefore, percentage limitations shall apply to investments at the time of purchase. The City will diversify its investments by security type and institution.

Within the context of the State limitations, the following investments are authorized subject to the Due Diligence Requirement on page 18:

1. State Treasurer's Local Agency Investment Fund (LAIF)

Government Code Section 16429.1: Pursuant to LAIF policy, local government agencies are authorized to invest in this program administered by the California State Treasurer. Monies invested with LAIF are pooled with State monies in order to earn the maximum rate of return consistent with safe and prudent treasury management. A thorough investigation of the pool is required on a continual basis.

2. U.S. Treasury Obligations

Government Code Section 53601(b): U.S. Treasury Notes or other indebtedness secured by the full faith and credit of the federal government.

3. U.S. Government Securities

Government Code Section 53601(f): Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies of the United States government-sponsored enterprises.

4. California State, California State, California Local Government Agencies, and other United States State Bonds

Government Code Sections 53601(c) through (e): Up to twenty percent (20%) of the City's portfolio may be invested in this category having at the time of investment a minimum "AA" or its rating equivalent or better by an NRSRO. This category includes:

- ❖ Registered state warrants or treasury notes or bonds of the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the state or by a department, board, agency, or authority of the state.
- ❖ Registered treasury notes or bonds of any of the other forty-nine (49) states in addition to 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 forty-nine (49) states, in addition to California.
- ❖ Bonds, notes, warrants, or other evidence of indebtedness of a local agency within the State of California, 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.

5. Bankers Acceptances

Government Code Section 53601(g): Up to forty percent (40%) of the City's portfolio may be invested in Bankers Acceptances which are defined as bills of exchange or time drafts, drawn on and accepted by a commercial bank, which are eligible for purchase by the Federal Reserve System, although no more than thirty percent (30%) of the portfolio may be invested in Bankers Acceptances with any one commercial bank. Additionally, the maturity period cannot exceed one hundred eighty (180) days.

6. Commercial Paper

Government Code Section 53601(h): Up to twenty-five percent (25%) of the City's portfolio may be invested in "Prime" commercial paper as rated by a nationally recognized statistical-rating organization (NRSRO). Issuing corporations must be organized and operating in the United States, have five hundred million dollars (\$500,000,000) total assets, and have at least an "A" rating by an NRSRO on debt other than commercial paper. No more than ten percent (10%) of the portfolio may be invested in the commercial paper and medium-term notes of any single issuer. The maturity period cannot exceed two hundred seventy (270) days.

7. Negotiable Certificates of Deposit

Government Code Section 53601(i): Up to thirty percent (30%) of the City's portfolio may be invested in Negotiable Certificates of Deposit issued by a nationally or state-chartered bank or a state or federal association or by a state-licensed branch of a foreign bank. These securities shall be rated in a ratings category of "A" or its equivalent or better by an NRSRO.

8. Medium-Term Notes

Government Code Section 53601(k): Defined as all corporate and depository institution debt securities with a maximum remaining maturity of five (5) years or less (measured by settlement date), issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision must be rated in a rating category of "A" or its equivalent or better by an NRSRO. No more than ten percent (10%) of the portfolio may be invested in the commercial paper and medium-term notes of any single issuer. Up to thirty percent (30%) of the City's portfolio may be so invested.

9. Mortgage or Asset-Backed Securities (ABS)

Government Code Section 53601(o): Up to twenty percent (20%) of the City's portfolio may be invested in mortgage pass-through securities, collateralized mortgage obligations, mortgage-backed or other pay-through bonds, equipment lease-backed certificates, consumer receivable passthrough certificates, or consumer receivable-backed bonds. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less measured on a weighted average life (WAL) basis.

10. Supranational Obligations

Government Code Section 53601(q): Defined as United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, and eligible for purchase and sale within the United States. These securities shall be rated in a ratings category of "AA" or its equivalent or better by an NRSRO. Purchases of supranationals shall not exceed thirty percent (30%) of the City's portfolio nor exceed a five (5)-year term.

11. Non-Negotiable Certificates of Deposit

Government Code Section 53635: There is no limit as to the amount of the investment portfolio that may be deposited in certificates of deposit, however diversification is an element of fiduciary standard and will be kept in mind when determining how much of the investment portfolio is deposited in certificates of deposit.

California law requires that public funds be collateralized. The depository must secure its public fund accounts by maintaining with the agent of the depository government securities having a market value of at least one hundred ten percent (110%) of the value of the public fund accounts. If a depository uses mortgage-backed securities (i.e., promissory notes secured by first mortgages or first deeds of trust) as collateral for public deposits, the market value of the mortgage-backed securities must be at least one hundred fifty percent (150%) of the value of the public fund accounts.

The collateralization requirement may be waived to the extent that funds are federally insured (currently up to \$250,000 per institution). For deposits equivalent to the maximum insured amount, security may also be waived for interest accrued on the deposit provided the interest is computed by the depository on the average daily balance of the deposits, paid monthly and computed on a three hundred sixty (360)-day basis.

12. Money Market Mutual Funds

Government Code Sections 53601(l) & 53601.6(b): Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.).

To be eligible for investment pursuant to this subdivision these companies will either:

- a. Attain the highest-ranking letter or numerical rating provided by not less than two (2) of the three (3) largest NRSRO or
- b. Have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five (5) years' experience managing money market mutual funds and with assets under management in excess of five hundred million dollars (\$500,000,000).

Up to twenty percent (20%) of the City's portfolio, based on purchase price, may be invested in money market mutual funds.

13. Joint Powers Authority Pools

Government Code Section 53601(p): Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q) of Government Code Section 53601, inclusive. Each share will represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares will have retained an investment adviser that meets all of the following criteria:

- a. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
- b. The adviser has not less than five (5) years of experience investing in the securities and obligations authorized in subdivisions (a) to (q) California Government Code Section 53601, inclusive.
- c. The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

There is no limit as to the amount of the investment portfolio that may be invested in joint powers authority pools.

It is the current practice of the City of Fontana to invest in the following types of securities. In order to avoid the risks associated with investing in unfamiliar instruments, any new type of security allowed by the State of California but not listed below must be approved by the Investment Review Committee prior to the investment of City funds.

The portfolio can invest in 144A-registered securities.

Also, while not expressly prohibited by State law, unregistered securities, such as **Rule 144A** securities, may not be purchased by local agencies that do not meet the threshold of five million dollars (\$5,000,000) investments and one hundred million dollars (\$100,000,000) in securities. On August 26, 2020, the Securities and Exchange Commission expanded the definition of Qualified Institutional Buyers (QIB)² to include any institution that qualifies as an accredited investor under Rule 501(a) under the Securities Act that are not otherwise stated in the definition of “qualified institutional buyer” provided they satisfy the one hundred million dollars (\$100,000,000) threshold.

| Investment Type | Maximum Maturity | Maximum % of Portfolio | Minimum Quality Requirements | Government Code Section |
|---|------------------|-------------------------------|--|----------------------------------|
| State Treasurer's Local Agency Investment Fund (LAIF) | 5 years | LAIF maximum per account | N/A | 16429.1 |
| U.S. Government Securities | 5 years | None | None | 53601(b) 53601(f) |
| California State, California Local Government Agencies, and other United States State Bonds | 5 years | 100% | "A" rating category or its equivalent or better | 53601(c) 53601(d) 53601(e) |
| Bankers Acceptances | 180 days | 40% | None | 53601(g) |
| Commercial Paper | 270 days | 25% (10% with one issuer)* | A-1 or higher | 53601(h) |
| Negotiable Certificates of Deposit | 5 years | 30% | None | 53601(i) |
| Medium-Term Notes | 5 years | 30% (10% with one issuer)* | "A" rating category or its equivalent or better | 53601(k) |
| Pass-Through Securities | 5 years | 20% | "AA" rating category or its equivalent or better | 53601(o) |
| Supranational Obligations | 5 years | 30% | "AA" rating category or its equivalent or better | 53601(q) |
| Certificates of Deposit | 5 years | None | None | 53635 |
| Money Market Mutual Funds | N/A | 20% | Highest Ranking at least two ratings agencies | 53601(l) & 53601.6(b) |
| Joint Powers Authority Pools | N/A | None | Minimum \$500M in assets and 5 years of experience | 53601(p) |

*Commercial paper and medium-term notes are combined to determine the 10% limit per issuer.

DUE DILIGENCE REQUIREMENT

As stated the Chief Financial Officer/Deputy City Treasurer, as assisted by an investment advisor or manager, shall make a thorough investigation of an investment pool or mutual fund prior investing funds and on a continual basis. At a minimum, the following information shall be on file for each pool and/or mutual fund:

1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations, how interest is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, and the size of deposits and withdrawals.
5. A schedule for receiving statements and portfolio listings.
6. Whether reserves, retained earnings, etc. are utilized by the pool/fund.
7. A fee schedule, and when and how fees are assessed.
8. Whether the pool/fund is eligible for bond proceeds and/or will it accept such proceeds.

PROHIBITED INVESTMENTS

In compliance with Government Code Section 53631.5, the City of Fontana shall not invest in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages. Additionally, the City shall not invest in any security that could result in zero interest accrual if held to maturity.

The City does not participate in any form of portfolio leverage, including but not limited to securities lending programs, reverse repurchase agreements and margin accounts.

DERIVATIVE INVESTMENTS

Derivatives are investments whose value is “derived” from or based upon the value of other assets or on the level of an interest rate index. The City of Fontana does not invest in derivative products.

LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment types or percentage allocations will be incorporated into the City of Fontana Statement of Investment Policy and supersede any and all previous applicable language. If the City is holding an investment that is subsequently prohibited by a legislative change, the City may hold that investment, if it is deemed prudent by the Investment Review Committee, until the maturity date to avoid an unnecessary loss.

INVESTMENT MATURITIES

In order to minimize the impact of market risk, while maximizing the investment rate of return, it is intended that all investments will be held to maturity. In order to implement this policy, the following guidelines will be used:

1. Liquidity. Approximately ten percent (10%) of the portfolio shall be held in short-term investments (less than twelve months) as insufficient liquidity could cause the premature sale of a security at a price below the original investment cost.
2. Weighted Average Life. The weighted average life (WAL) of the portfolio should not exceed two and one-half (2-1/2) years.
3. Duration. The target duration of the portfolio shall be two (2) years.
4. Diversification of Maturities. Projected cash flow requirements are the primary factor to be used in determining investment maturity terms. After cash flow needs have been met, yield considerations will be the next factor used in determining maturity terms, with the expectation that longer maturity periods will generally yield greater returns. However, the City will diversify its investments by maturity in order to avoid over concentration (in excess of 25%) in a specific maturity sector.
5. Sale of Securities. Investments may be sold prior to maturity for cash flow or appreciation purposes. However, no investment shall be made based solely on earnings anticipated from capital gains.
6. Maximum Maturity. As previously stated, the maximum maturity term of any investment shall not exceed five (5) years (measured by settlement date or Weighted Average Life) unless recommended by an investment advisor or manager, and prior express authority from Council has been granted.

V. CASH MANAGEMENT

In order to obtain a reasonable return on public funds, the following cash management practices will be followed:

1. Maintain maximum investment of all City funds not required to meet immediate cash flow needs.
2. Pool cash from all City administered funds for investment purposes with interest earnings allocated monthly based on the average cash balance of each fund at month end as a percentage of the entire pooled portfolio.
3. Maximize the City's cash flow through immediate deposit of all cash receipts, use of direct deposit when available, and appropriate timing of payment to vendors.
4. Maximize cash flow information available through the use of only one operating bank account.

VI. EVALUATION OF INVESTMENT PERFORMANCE

The investment portfolio shall be managed using a passive style; market timing shall be ignored, and the focus instead shall be on obtaining a market average rate of return during budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs. Investments shall be managed at the portfolio level, not at the level of the individual securities.

BENCHMARK COMPARISON

The investment portfolio shall be structured to optimize the return given the risk constraints and cash flow needs.

Investment performance shall be continually monitored and evaluated by the Investment Review Committee. Investment performance statistics and activity reports shall be generated on a monthly basis for presentation to the City Council.

For reporting purposes, the portfolio's monthly rate of return shall be compared to the ICE BofA 1-5 Year US Government and Corporate Index .

VII. INVESTMENT REPORTING

The Finance Department shall prepare and submit a monthly investment report to the City Council.

The Monthly Investment Report shall be available approximately thirty (30) days after the end of the monthly reporting period, or as soon as the information is available, online on the City's website and included in the Quarterly Budget Report.

VIII. INVESTMENT POLICY REVIEW AND ADOPTION

This Statement of Investment Policy shall be submitted annually to the City Council for review and adoption in either May or June for the Fiscal period beginning the following July. The policy shall be reviewed at least annually to ensure its consistency with the overall objectives of the City and its relevance to current law and financial and economic trends. Any modifications made thereto must be approved by the City Council.

IX. GLOSSARY

AGENCIES: Federal agency securities.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.

COLLATERAL: This includes, but is not limited to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the city.

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

COMMERCIAL PAPER (CP): Short-term, negotiable, unsecured promissory notes.

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

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with an exchange of money for the securities.

DERIVATIVE PRODUCTS: Financial instruments whose own value is "derived" from or based upon the value of other assets or on the level of an interest rate index. These instruments often have complex structures with option-like features.

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value.

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

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

DURATION: A measure of the timing of the cash flows to be received from a given fixed income security. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

FEDERAL AGENCY SECURITIES (AGENCIES): Discount and coupon obligations of the federal agencies established by Congress to provide credit to specific sectors of the economy.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits currently up to \$100,000 per deposit.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): A federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). FNMA securities are highly liquid and widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA): Securities are backed by FHA, VA or FMHM mortgages. Security holder is protected by full faith and credit of the U.S. Government.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

LOCAL AGENCY INVESTMENT FUND (LAIF): Investment program administered by the California State Treasurer where monies invested are pooled with State monies to earn the maximum rate of return consistent with safe and prudent treasury management.

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 agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer to liquidate the underlying securities in the event of default by the seller.

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

MEDIUM-TERM NOTES: All corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

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

acceptance means one or more time draft(s) for which a bank has committed to making the payment to the holder at maturity.

MONEY MARKET MUTUAL FUND: A type of fixed income mutual fund that invests in debt securities characterized by their short maturities and minimal credit risk.

MORTGAGE PASS-THROUGH SECURITIES: A security created when one or more mortgage holders form a pool of mortgages and sells shares or participation certificates in the pool. The cash flow from the collateral pool is “passed through” to the security holder as monthly payments of principal, interest and prepayments.

MUTUAL FUNDS: Open-end professionally managed investment fund that pools money from many investors to purchase securities.

NEGOTIABLE CERTIFICATES OF DEPOSIT: CDs with a minimum face value of \$100,000 that can be traded in a highly-liquid secondary market.

NRSRO: Nationally Recognized Statistical Rating Organization, a credit rating agency approved by the U.S. Securities and Exchange Commission (SEC) to provide information that financial firms must rely on for regulatory purposes. The top firms including Moody’s Investor Services, Standard and Poor’s and Fitch Group.

PORTFOLIO: Collection of securities held by an investor.

PRUDENT PERSON RULE: The standard of care to be used under this policy, whereby 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 probable safety of their capital as well as the probable income to be derived.

PRIMARY DEALER: A group of government securities dealers that 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 Securities and Exchange Commission (SEC) registered securities broker-dealers, banks, and a few unregulated firms.

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 (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.

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.

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

SECURITIES AND EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SUPRANATIONAL OBLIGATIONS: United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, and eligible for purchase and sale within the United States.

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 BOND: Long-term U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

YIELD: 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. **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.