CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: PUBLIC SAFETY, FINANCE AND STRATEGIC SUPPORT COMMITTEE

FROM: Rick Bruneau

SUBJECT: CITY OF SAN JOSE INVESTMENT POLICY ANNUAL REVIEW

DATE: February 1, 2024

Approved Date 2/6/2024

RECOMMENDATION

1) Approve the City of San José Investment Policy, as amended; and

2) Refer the City of San José Investment Policy as well as the appropriate resolution to the full City Council for consideration at the March 5, 2024 City Council Meeting.

SUMMARY AND OUTCOME

Acceptance of this recommendation will make necessary and recommended changes to the City of San José Investment Policy (Policy) and complies with the Policy's annual review requirement.

BACKGROUND

The Policy requires the Finance Department perform an annual review of the Policy and submit any proposed changes to the Public Safety, Finance and Strategic Support Committee for its review and subsequent consideration and approval by the entire City Council.

ANALYSIS

In accordance with Section 23 of the Policy, the Finance Department staff has completed its annual review of the Policy and recommends an update to two investment categories of Authorized Investments and their portfolio percentage constraints, as well as an update to the list of primary dealers and several technical clean-ups.

The proposed revisions as redlined in Exhibit A (City of San José Investment Policy) continue to allow the City to conform its investments to the California Government Code and comply with the Charter of the City of San José and the San José Municipal Code. The Policy and proposed revisions are consistent with the overall objectives of safety, liquidity, and yield. They are also relevant to current laws and financial trends.

Consolidation of two investment categories of Authorized Investments and their portfolio percentage constraints

Staff recommends a consolidation of Sections 9.17 and 9.18 of the Policy into a single Section 9.17. The new Section 9.17 is titled Collateralized Securities and will now have two categories. Category 1 (Section 9.17.1) includes collateralized securities underwritten and issued by governmental agencies. Category 2 (Section 9.17.2) includes collateralized securities underwritten and issued by private entities. Category 1 is assigned a portfolio limit of 15%. Category 2 is restricted to a 5% portfolio limit. No more than 20% of the total portfolio shall be invested in collateralized securities in aggregate.

The current Policy language allows up to 10% of the portfolio to be invested in Mortgage-Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO) (both agency-backed and private label). The current Policy limits Asset-Backed Securities (ABS) to 5% of the portfolio. The current grouping bundles credit and interest risks and is restrained in assigning portfolio limits based on these separate risks.

The consolidation and relabeling of this section allow for the recognition of collateralized securities as a grouping representing a vast portion of the bond market. The sub-grouping of this section into two categories creates a clear separation of risk exposures. Collateralized securities underwritten and issued by governmental agencies, including Fannie Mae, Freddie Mac, and Ginnie Mae, come with an implicit or explicit guarantee of principal repayment and thus essentially bear interest rate risk exposure and call risk exposure arising from variable early repayment of principal. The eventual repayment of principal comes with the guarantee and represents a greater degree of investment safety overall and in comparison to securitizations by private entities. It allows us to rationalize a higher portfolio percentage limit of 15% keeping in line with the California Government Code titled “Mortgage Pass-Through and Asset-Backed Securities” (Section 53601(o)). Collateralized securities underwritten and issued by private entities bear full credit exposure to the loans backing the securities and represent the primary risk to this category.

Primary Dealer Update

Primary dealers serve as trading counterparties of the Federal Reserve Bank of New York in its implementation of monetary policy pursuant to the direction of the Federal Open Market Committee. The proposed revisions to Exhibit A in the attached Investment Policy reflect the most recent changes to the Federal Reserve Bank Primary Dealer List which was last updated on January 18, 2024.

Technical "Clean-ups"

A few technical clean-ups are recommended with the proposed Policy revisions. These clean-ups address minor changes to the Policy and the Glossary.

EVALUATION AND FOLLOW-UP

Finance Department staff will be available to answer questions about the Annual Policy Review at both the Committee meeting on February 15, 2024 and the City Council meeting on March 5, 2024.

COORDINATION

This memorandum was coordinated with the City Attorney's Office.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the March 5, 2024 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project, File No. PP17-009, General Procedure & Policy Making.

PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/
RICK BRUNEAU
Director of Finance

For questions, please contact Qianyu Sun, Deputy Director of Finance – Debt and Treasury Management Division at, qianyu.sun@sanjoseca.gov or (408) 535-7832.

ATTACHMENT: Exhibit A: City of San José Investment Policy

ATTACHMENT

EXHIBIT A
City of San José, California

COUNCIL POLICY

TITLE CITY OF SAN JOSE INVESTMENT POLICY	**PAGE** 1 of 37	**POLICY NUMBER** 1-12
EFFECTIVE DATE April 2, 1985	**REVISED DATE** March 5, 2024	

APPROVED BY COUNCIL ACTION 4/2/85, Res. No. 58200; 11/03/87, Item 7e(6); 9/20/88, Item 10a, Res. No. 60898; 12/13/88, Item 6f(1), Res. No. 61089; 9/12/89, Item 6f(2), Res. No. 61661; 12/8/92, Item 7e(9); 10/12/93, Item 9f, Res. No. 64925; 1/25/94, Item 7d(4); 2/1/94, Item 6f(8); 3/7/95, Item 7d(5); 4/23/96, Item 9j, Res. No. 66571; 06/26/01, Item 3.10; 5/21/02, Item 3.4, Res. No. 70976; 6/04/02, Item 3.7, Res. No. 71005; 6/24/08, Item 2.13, Res. No. 74474; 6/09/09, Item 2.6, Res. No. 74941; 12/8/09, Item 3.8(b), Res. No. 75198; 09/28/10, Item 3.3, Res. No. 75576; 08/30/11, Item 3.6, Res. No. 75975; 08/28/12, Item 2.15, Res. No. 76418; 9/10/13, Item 2.8, Res. No. 76783; 9/16/14, Item 2.13, Res. No. 77157; 6/9/15, Item 3.11, Res. No. 77384; 6/7/16, Item 3.3, Res. No. 77765; 3/7/17, Item 3.5, Res. No. 78100; 3/6/18, Item 3.5, Res. No. 78524; 3/19/19, Item 3.6, Res. No. 79010; 3/10/2020, Item 3.4, Res. No. 79424; 9/15/2020, Item 2.12, Res. No. 79709; 3/9/2021, Item 3.4, Res. No 79919; 3/15/2022, Item 2.10, Res. No. 80410; 3/14/2023, Item 3.3b, Res. No. RES2023-60; 3/5/2024, Item ____, Res. No. ______.

1.0 POLICY

The purpose of this Investment Policy ("Policy") is to govern the management and investment of the City of San José's ("City") public funds.

It is the policy of the City to invest public funds in a manner to meet the objectives, in order of priority, safety of invested funds, maintenance of sufficient liquidity to meet cash flow needs; and attainment of a rate of return consistent with the first two objectives, while conforming its investments to the provisions of California Government Code Sections 53600 et seq.[1], the Charter of the City of San José, the City of San José Municipal Code, and this Policy.

2.0 SCOPE

This Policy applies to all funds, entities and investment activities under the Director of Finance's control as accounted for in the Annual Comprehensive Financial Report, including but not limited to the following unless specifically exempted by statute or ordinance:

- General Fund
- Special Revenue Funds

[1] Even though the provisions of California Government Code Sections 53600 et. seq. do not necessarily apply to the City as a charter city, the City has determined that it is prudent to conform its investments to State law.

- Debt Service Funds
- Capital Projects Funds
- Enterprise Funds
- Trust and Agency Funds
- Any new Fund created by the City Council unless specifically exempted

2.1 The City's Deferred Compensation Plan is excluded because it is managed by a third-party administrator under the authority of the City's Deferred Compensation Advisory Committee and invested by individual plan participants. Likewise, contributions towards Voluntary Employees Beneficiary Association (VEBA) are also excluded. Additionally, the City's Retirement Funds are excluded because they are managed by the Retirement Administration under the authority of the Retirement Boards.

2.2 Proceeds of debt issuances shall be invested in accordance with the investment objectives of this Policy and in accordance with the permitted investment provisions of their specific bond indentures. The reporting requirements in Section 18.0 shall not apply to bond proceeds held by trustees. Bond proceeds held in various trust accounts are not subject to percentage restrictions specified in Section 9.0 of this Policy. If in the opinion of the Director of Finance the matching of bond reserve funds with the maturity schedule of an individual bond issue is prudent, the Director of Finance is authorized to cause the bond reserve fund to be invested in an investment vehicle that is authorized by this Policy but that has a maturity that exceeds the five-year limitation specified in Section 13.0 of this Policy.

3.0 PRUDENCE

3.1 "City Investment Officials" means the Director of Finance, Assistant Director of Finance, Deputy Director of Finance, Debt and Treasury Management, Principal Investment Officer, Financial Analyst and any other Finance staff that the Director of Finance authorizes in writing.

3.2 The overall investment program shall be designed and managed with a degree of professionalism worthy of the public trust. City Investment Officials performing duties in furtherance of the investment program, shall act as fiduciaries subject to the Prudent Investor Standard which shall be applied in the context of managing public funds portfolio.

> ***Prudent Investor Standard***: Acting with care, prudence and diligence under circumstances then prevailing, 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 of the agency.

Individuals charged with the responsibility of investing public funds improve their chance of meeting the prudent investor standard by following a strict professional discipline which involves prudence, discretion and intelligence as exercised in the management of the investments under their control, considering the probable safety of the capital as well as the probable income to be derived.

3.3 City Investment Officials, acting in accordance with this Policy and written procedures governing the City's investment program and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided that deviation from expectations are reported in a timely fashion as required by this Policy and the City's investment program procedures and appropriate action is taken to control adverse developments.

4.0 OBJECTIVES

The primary objectives, in order of priority, of the City's investment program are:

4.1 Safety

Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City will diversify its investments by investing funds among a variety of financial institutions. In particular, the City shall seek to preserve principal by mitigating credit risk and market or interest rate risk by doing each of the following:

4.1.1 Credit risk, defined as the risk of loss due to the failure of the security issuer or obligor, will be mitigated by:

a. Limiting investments to high quality securities;
b. Prequalifying issuers of securities which the City may purchase;
c. Diversifying the investment portfolio so that the failure of any one issuer or obligor will not place an undue financial burden on the City; and
d. Monitoring the investment portfolio pursuant to investment procedures to anticipate and respond appropriately to a significant reduction of credit worthiness of any issuer or obligor.

4.1.2 Market or interest rate risk, defined as the risk that the market value of portfolio securities will fall due to an increase in general interest rates, will be mitigated by:

a. Generally structuring the City's portfolio so that securities mature to meet the City's cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to their maturity to meet those specific needs; and

b. Occasionally restructuring the portfolio to minimize the loss of market value and/or to enhance return/yield subject to the constraints described in Section 17.0 of this Policy.

4.2 Liquidity

The City's investment portfolio will be structured in a manner which will provide that securities mature at the same time as cash is needed to meet anticipated demands (static liquidity). Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). The specific concentration of different investment instruments, maturities and credit ratings, among other things, are described in Section 9.0 of this Policy.

It is the general intent of the City to hold all investments until maturity to ensure the return of all invested principal. However, securities may be sold prior to maturity as needed to comply with the intent of this Policy. While it may occasionally be necessary or strategically prudent for the City to sell a security prior to maturity to either meet unanticipated cash needs, to minimize loss of principal of a security with declining credit, or to restructure the portfolio, this Policy specifically prohibits trading securities for the sole purpose of speculating or taking an unhedged position on the future direction of interest rates.

Specifically, "When, as, and if issued" trading and open-ended portfolio restructuring transactions are prohibited; however, purchasing "When, as, and if issued" investments authorized in Section 9.0 with a forward settlement term not greater than 31 days are permitted. Purchasing "When, as, and if issued" investments authorized in Section 9.0 with a forward settlement term greater than 31 days are permitted with prior written approval by the Director of Finance.

4.3 Yield

The City's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, taking into consideration the investment risk constraints and liquidity needs. Yield on the City's investment portfolio is of secondary importance compared to the safety and liquidity objectives described above. Investments are limited to relatively low-risk securities in anticipation of earning a rate of return relative to the risk being assumed. Nevertheless, investment performance shall be periodically monitored and evaluated by the Director of Finance by comparison with other benchmark yields.

5.0 INVESTMENT AUTHORITY

Authority to manage the City's investment program is derived as follows:

5.1 Responsibilities of the Finance Department

The Finance Department is charged by the City Charter with responsibility for maintaining custody of all public funds and securities belonging to or under the control of the City, and for the deposit and investment of those funds in accordance with principles of sound treasury management and in accordance with applicable laws and ordinances.

5.2 Responsibilities of the Director of Finance

The Director of Finance is appointed by the City Manager and is subject to his or her direction and supervision. In accordance with the City Charter, Article VIII, Section 806, the Director of Finance is charged with the power and duty to "maintain custody of all public funds and securities belonging to or under the control of the City, and deposit and invest funds in accordance with principles of sound treasury management and in accordance with the applicable laws or ordinances.". Furthermore, the Director of Finance shall have "the duties and powers imposed by the general laws of the State of California upon City Treasurers, City Assessors and City Tax Collectors."

Subject to the limitations and requirements specified in this Policy, the Director of Finance and his/her authorized designee(s) can execute agreements and other forms of documentation in order to make investments in Authorized Investments (as defined in Section 9.0, below), including but not limited to opening and maintaining accounts with banks, custodians, broker/dealers and other agents used in the process of investment transactions.

Under the oversight of the Director of Finance, responsibility for the operation of the investment program may be delegated to the Finance staff currently included in the definition of City Investment Officials, who shall act in accordance with established written procedures and internal controls consistent with the Policy. The Director of Finance shall be responsible for all investment transactions undertaken and shall establish a system of controls in accordance with Section 14.0 of this Policy.

Additionally, other City officials play a role in the oversight of the investment program.

5.3 Responsibilities of the City Manager

The City Manager is responsible for directing and supervising the Director of Finance. He or she is responsible further to keep the City Council fully advised as to the financial condition of the City.

5.4 Responsibilities of the City Auditor

The City Auditor is charged by the City Charter with conducting performance audits as assigned by the City Council. A review of the City's investment program could be a part of the responsibility described above.

5.5 Responsibilities of the City Council

5.5.1 The City Council shall annually review and shall adopt by resolution the Investment Policy as described in Section 23.0.

5.5.2 As provided in Section 18.0, the Council shall receive and review Quarterly Investment Reports. These Quarterly Reports shall be distributed by electronic means and agendized as separate items for full Council review and acceptance at a Council meeting following the Council Committee consideration as described in Section 19.0.

5.5.3 No less than semi-annually, with the Second Quarterly Report (October – December) and the Fourth Quarterly Report (April – June) the City Council Committee assigned the responsibility for review of Finance Department reports shall consider an oral presentation and overview of the City's Investment Program.

6.0 INVESTMENT PROCEDURES

The Director of Finance shall establish written investment policy procedures for the operation of the investment program consistent with this Policy. Such procedures shall include explicit delegation of authority to other City Investment Officials. No City Investment Official may engage in an investment transaction on behalf of the City except as provided under the terms of this Policy and the written procedures established by the Director of Finance.

7.0 ETHICS AND CONFLICTS OF INTEREST

City Investment Officials involved in the investment process shall refrain from personal business activity that could conflict with proper execution of investments subject to this Policy. City Investment Officials shall avoid all conflicts of interest or appearance of conflicts of interest when performing duties in furtherance of this investment program. The Director of Finance shall immediately disclose any financial interest which is subject to disclosure under the California Political Reform Act or would constitute a conflict of interest under Government Code Section 1090 to the City Manager and the City Attorney. All other City Investment Officials shall immediately disclose any financial interest which is subject to disclosure under the California Political Reform Act or would constitute a conflict of interest under Government Code Section 1090 to the Director of Finance, who in turn will immediately notify the City Manager and the City Attorney. Additionally, City Investment Officials shall comply with the City's Code of Ethics, conflict of interest requirements under state law and the disclosure requirements of the Political Reform Act.

8.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

8.1 Standards for Financial Institutions eligible to execute investment transactions with the City (collectively, "Financial Institutions") include being:

a. Primary government dealers as designated by the Federal Reserve Bank of New York (Exhibit A), or
b. National or state-chartered banks, or
c. Regional broker/dealers, or
d. Direct issuers of securities eligible for purchase by the City.

8.1.1 Eligible Financial Institutions must also be:

a. Licensed by the State of California;
b. Registered with the Securities and Exchange Commission (SEC);
c. A member of the Financial Industry Regulatory Authority (FINRA); and
d. Able to provide audited financial statements annually to the City.

8.2 The Director of Finance will maintain a list of Financial Institutions authorized to provide investment services and a list of approved security broker/dealers after a careful review of their qualifications and creditworthiness.

8.2.1 All Financial Institutions which desire to do business with the City shall provide the necessary information in Section 8.1 or as requested by City staff from which the City can determine their creditworthiness, the existence of any pending legal action against the firm or the individual brokers who work directly with the City, as well as an understanding of the security markets that they serve.

8.2.2 The Director of Finance will conduct an annual review of the financial condition and registrations of approved Financial Institutions. Audited financial statements, collected as part of the annual review will be on file (either paper or electronic) for each Financial Institution with which the City invests. City Investment Officials will periodically review the approved list of Financial Institutions to determine the need to add to or delete from the approved list.

8.2.3 The Director of Finance will make a determination on whether an Agreement (consultant or service agreement) needs to be executed with the Financial Institution based on the scope of services and compensation provided. The City currently executes an Agreement for Investment Custodial Services. To the extent any Financial Institution is providing investment advisory services, as opposed to traditional brokerage services, the City will enter into an Agreement for those services. Additionally, any firm in which the City enters into a Repurchase Agreement must meet the requirements outlined in Section 9.8 of the Policy. The City requires that an agreement for services be executed prior to entrusting its funds to any Financial Institution, and that up-to-date financial statements be sent to the Director of Finance upon their issuance.

8.2.4 After the annual Council adoption of the Policy, the Director of Finance shall send a copy of the current edition of the Policy to all Financial Institutions which are approved to execute investment transactions with the City. Confirmation of receipt of this policy shall be considered evidence that the Financial Institution understands the Policy and intends to transact with the City only in appropriate investments authorized by this Policy.

9.0 AUTHORIZED INVESTMENTS

All investments shall conform to Sections 53600 et seq. of the California Government Code and as described within the Policy ("Authorized Investments").

Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. If, subsequent to purchase, portfolio percentage constraints are above the maximum thresholds due to changes in value of the portfolio, or changes due to revisions of the Policy, the affected securities may be held to maturity in order to avoid potential principal losses. However, the Director of Finance may choose to rebalance the portfolio (pursuant to Section 12.0 of the Policy) if percentage imbalances are deemed to impair portfolio diversification. If, subsequent to purchase, securities are downgraded below the minimum acceptable ratings level specified in this Policy, the securities shall be reviewed for possible sale within a reasonable amount of time after the downgrade. In either instance listed above, the fact will be disclosed in the Quarterly Investment Report as described in Section 18.0 of this Policy.

Authorized Investments and applicable limitations shall include:

9.1 United States Treasury Obligations, including Bonds, Notes and Bills (Treasury)

a. There is no maximum portfolio limit.
b. Purchase in Treasury securities shall not exceed five years to maturity.

9.2 United States Government Agency Issues (Agency)

a. The purchase of United States Federal Government Agency securities will be limited to the senior, non-subordinated issues of the Federal Agricultural Mortgage Corporation (Farmer Mac), the Federal Farm Credit Banks (FFCBs), the Federal Home Loan Banks (FHLBs), Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA). This limitation shall not apply to money market mutual funds described in Section 9.11.
b. The purchase of Farmer Mac securities shall not exceed 10% of the total portfolio.
c. There is no maximum portfolio limit for other authorized US government agency issues.
d. Purchase in eligible Agency securities shall not exceed five years to maturity.

9.3 Supranational Organizations Issued Obligations (Supranational)

a. Supranational organizations refer to the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Inter-American Development Bank (IADB).
b. The purchase is limited to United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the supranational organizations listed in 9.3.a.
c. Securities shall be rated in a rating category of "AA" or its equivalent or better by Moody's, S&P, or Fitch. If rated by more than one organization,

no rating may be lower than the category described in the preceding sentence.

d. No more than 20% of the portfolio shall be invested in supranational organizations' debt.
e. Purchases in eligible Supranational securities shall not exceed five years to maturity.

9.4 Bankers Acceptances (BAs)

a. BAs eligible for investment must be time drafts drawn on and accepted by a commercial bank.
b. The purchase is limited to BAs issued by US domestic banks, and foreign bank branches that are licensed by federal or state governments.
c. Foreign bank issued BAs must be dollar denominated.
d. Issuing banks must have a short-term rating of "P-1, A-1 or F-1" or better by two of the three nationally recognized statistical rating organizations, Moody's, S&P or Fitch. No rating may be lower than any of the ratings listed above.
e. Long-term ratings of the bank or its holding company must be in a rating category of "A" or its equivalent or better by Moody's, S&P or Fitch. If rated by more than one organization, no rating may be lower than the category described in the preceding sentence.
f. No more than 5% of the portfolio shall be invested in any single institution.
g. No more than 20% of the portfolio shall be invested in BAs.
h. The maturity of any BA shall not exceed 180 days.

9.5 Time Deposits

9.5.1 FDIC Insured Time Deposits

a. Deposits up to the federally insured (FDIC) limit may be invested in banks, and savings and loans.
b. No more than 10% of the portfolio shall be invested in federally insured time deposits.
c. No more than the FDIC limit shall be invested in one institution.
d. Deposits shall not exceed the net worth of the bank or savings and loan.
e. The maturity of FDIC-insured time deposits shall not exceed three years.

9.5.2 Uninsured Time Deposits

a. Deposits over the federally insured limit (FDIC) may be invested in banks, and savings and loans.
b. Depositories must have a short-term rating of "P-1, A-1, or F-1" or better by two of the three nationally recognized statistical rating organizations, Moody's, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed above.

c. Long-term ratings of the bank or its holding company must be in a rating category of “A” or its equivalent or better by Moody’s, S&P or Fitch. If rated by more than one organization, no rating may be lower than the category described in the preceding sentence.
d. Deposits shall be collateralized in the manner prescribed by State law for depositories.
e. No more than 5% of the portfolio shall be invested in non-negotiable and collateralized deposits.
f. No more than 2.5% shall be invested in one issuer.
g. Deposits shall not exceed the net worth of the bank or savings and loan.
h. The maturity of uninsured time deposits shall not exceed 18 months.

9.6 Commercial Paper (CP)

a. Commercial paper eligible for investment must be rated “P-1, A-1, or F-1” or better by two of the three nationally recognized statistical rating organizations, Moody’s, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed above.
b. Issuing corporations must be organized and operating within the United States and have total assets in excess of $500,000,000 and shall issue debt, other than commercial paper, if any, that is rated in a rating category of “A” or its equivalent or better by Moody’s, S&P or Fitch. If rated by more than one organization, no rating may be lower than the category described in the preceding sentence.
c. Purchase of commercial paper may not represent more than 10% of an issuing corporation’s commercial paper.
d. No more than 5% of the portfolio shall be invested in any single institution.
e. No more than 20% of the portfolio shall be invested in commercial paper.
f. The maturity of the CP shall not exceed 270 days.

9.7 Negotiable Certificates of Deposit (NCDs)

a. Depositories shall be limited to banks, and savings and loans with an issuer short-term rating of “P-1, A-1, or F-1” or better by two of the three nationally recognized statistical rating organizations, Moody’s, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed above.
b. The outstanding debt of the bank or its holding company must be rated in a rating category of “A” or its equivalent or better by Moody’s, S&P or Fitch. If rated by more than one organization, no rating may be lower than the category described in the preceding sentence.
c. No more than the lesser of the net worth of the institution or 5% of the portfolio shall be invested in any single institution.
d. No more than 20% of the portfolio shall be invested in NCDs.
e. The maturity of the NCDs shall not exceed one year.

9.8 Repurchase Agreements (Repos)

a. Repos are executed only with primary dealers of the Federal Reserve Bank of New York which have entered into the City's Master Repurchase Agreement and any subsequent amendments to the Master Repurchase Agreement.
b. Securities accepted as collateral for repurchase agreements are U.S. Treasury or U.S. Federal Government Agency issues permitted by this Policy and the limitations set forth under Section 9.1 and 9.2.
c. The full market value of securities (including accrued interest) accepted as collateral as authorized by this Policy shall be at the time of transfer equal to at least 102 percent of the face value of the Repo.
d. For other than overnight investments, the securities transferred shall be marked to market on a daily basis and maintained at a market value equal to at least 102 percent of the repurchase agreement's face value.
e. No more than 20% of the portfolio shall be invested in Repos.
f. No more than 5% of the portfolio shall be invested in a Repo with any single institution.
g. The maturity of any Repo shall not exceed 92 days.

9.9 Corporate Notes

a. Corporate notes refer to debt securities issued by domestic corporations organized and operating within the United States, or foreign institutions licensed by the US federal or state governments and operating within the United States.
b. Securities eligible for investment must be rated in a rating category of “A” or its equivalent or better by two of the three nationally recognized statistical rating organizations, Moody’s, S&P, or Fitch. No rating may be lower than the category described in the preceding sentence.
c. No more than 5% of the portfolio shall be invested in any single institution.
d. Medium-term corporate notes may not exceed 30% of the City’s portfolio.
e. The maturity of any corporate note shall not exceed 5 years.

9.10 Local Agency California Investment Fund (LAIF)

a. Funds may be invested in LAIF; a State of California managed investment pool, up to the maximum dollar amounts in conformance with the account balance limits authorized by the State Treasurer.
b. Annual review of LAIF’s Pool Money Investment Board Annual Report will be conducted to continue to ensure LAIF’s investment policy, standards, and rate of return are compatible with the City’s risk tolerance.

9.11 Joint Powers Authority Pool (JPAP)

a. Funds may be invested in a JPAP organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in Section 53601, subdivisions (a) to (q) where each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority.

b. The joint powers authority issuing the shares must retain an investment adviser who is registered or exempt from registration with the Securities and Exchange Commission (SEC), has assets under management in excess of $500 million, and has at least five years of experience investing in the securities and obligations authorized by Section 53601, subdivisions (a) to (q).
c. Prior to investing, and on an annual basis thereafter, the City will request from each Joint Powers Authority Pool, documents which provide details on the operations of the fund. These documents, along with the other criteria below, including the rating restriction, will be used to determine the suitability to invest in the JPAP.
d. Investment in JPAPs will be limited to the California Asset Management Program (CAMP) and the Investment Trust of California (CalTRUST).
e. Ratings of a JPAP must be in a rating category of “AAAm” or its equivalent by Moody’s, S&P or Fitch. If rated by more than one organization, no rating may be lower than the category described in the preceding sentence.
f. No more than 10% of the portfolio shall be invested in any single JPAP.
g. JPAPs may not exceed 20% of the City’s portfolio.

9.12 <u>Money Market Mutual Fund (MMF)</u>

a. An investment objective of the fund must be the maintenance of a price per share of $1.00.
b. MMF must be registered with the Securities and Exchange Commission (SEC) and comply with the most current guidelines of Rule 2a-7 and other rules under the Investment Company Act of 1940 governing the operation of money market funds.
c. Prior to investing, and on an annual basis thereafter, the City will request from each Money Market Mutual Fund, documents which provide details on the operations of the fund. These documents, along with the other criteria below, including the rating restriction, will be used to determine the suitability to invest in the MMF.
d. MMF must meet either one of the following criteria for investment:
   i) Ratings must be in a rating category of “AAAm” or its equivalent by two of the three nationally recognized statistical rating organizations, Moody’s, S&P, or Fitch. No rating may be lower than the category described in the preceding sentence; or
   ii) Retained an investment adviser registered with the SEC or exempt from the SEC registration requirements with not less than five years’ experience investing in securities and obligations authorized by the California Government Code Section 53601, and with assets under management in excess of $500 million.
e. The Fund invests only in U.S. Treasury and U.S. Federal Government Agency securities, and in repurchase agreements backed by U.S. Treasury and U.S. Federal Government Agency securities.
f. No more than 10% of the portfolio shall be invested in any one money market mutual fund.

g. No more than 20% of the portfolio shall be invested in money market mutual funds.

9.13 Reverse Repurchase Agreements (Reverse Repos)

a. Except as otherwise authorized by the City Council, the use of reverse repurchase agreements will be limited to those occasions where unanticipated, short-term cash requirements can be met more advantageously by initiating a reverse repurchase agreement than by selling a security into the secondary market prior to its maturity.
b. Reverse repurchase agreements are executed only with primary dealers of the Federal Reserve Bank of New York which have signed the City's Master Repurchase Agreement and any subsequent amendments to the Master Repurchase Agreement.
c. Under no circumstances shall the City sell securities through reverse repurchase agreements for the purpose of financing the acquisition of other securities.
d. The term of any reverse repurchase agreement shall be limited to 30 days.
e. The amount of the agreement may not exceed the lesser of $25 million or 20% of the base value of the portfolio, and only a single agreement shall be in effect at one time.
f. Prior written approval by the City Manager or his or her designee is required to enter into a reverse repurchase agreement, and the fact that such a reverse repurchase agreement has been executed will be reported in writing within 72 hours to the City Manager, City Council and City Auditor and will also be included in the Quarterly Investment Report.

9.14 Municipal Bonds

Municipal bonds are debt obligations issued by the state and local governments and their agencies such as cities, counties, government retirement plans, school districts, state universities, sewer districts, municipally owned utilities and authorities operating bridges, airports and other transportation facilities; including bonds payable solely out of the revenue from a revenue-producing property owned, controlled, or operated by a state or local agency. No more than 30% of the total portfolio shall be invested in municipal bonds. Municipal bonds are further classified as follows:

9.14.1 Category 1 - Bonds issued by the City or agency[2] of the City

a. Provided that interest on such bonds is taxable for Federal income tax purpose (or, if such interest is exempt from taxation for Federal income tax purposes, the purchase thereof is approved by the Director of Finance

[2] "*Agency of the City*" includes all "component units" of the City of San José as defined in the City's Annual Comprehensive Financial Report (ACFR) in accordance with generally accepted accounting principles, including, but not limited to, Successor Agency to the Redevelopment Agency of the City of San José ("SARA"), the City of San José Financing Authority, the San José – Santa Clara Clean Water Financing Authority, the City of San José Parking Authority and any other Joint Powers Authority created in which the City is a majority obligor or participant.

in consultation with the City Attorney) and the purchase thereof does not cause such Bonds to be defeased under the indenture, trust agreement, fiscal agent agreement or similar document authorizing their issuance, securities eligible for investment must be rated in a category of "A" or its equivalent or better by two of the three nationally recognized statistical rating organizations, Moody's, S&P or Fitch; or if deemed appropriate for purchase by the Director of Finance if the issuing agency does not apply for a rating. No rating may be lower than the category described in the preceding sentence. Such ratings must be the issuing agency's underlying rating, irrespective of any credit enhancements obtained from third party organizations.

b. No more than 5% of the total portfolio for each separate legal entity with an aggregate limit in bonds issued by the City or its agencies not to exceed 10% of the total portfolio.
c. The maturity shall not exceed five years unless there is a mandatory put provision or tender option date imbedded into the security; then the date of the put provision shall be used to determine the maturity.
d. Maturity may exceed five years without a mandatory put provision or tender option date imbedded into the security when prior approval is obtained in writing from the Director of Finance and the City Manager.
e. Maturities exceeding five years will be specifically delineated in the Quarterly Investment Report.

9.14.2 Category 2 - Bonds issued by the State of California

a. Obligations must be rated in a rating category of "A" or its equivalent or better category by two of the three nationally recognized statistical rating organizations, Moody's, S&P or Fitch, respectively. No rating may be lower than the category described in the preceding sentence. Such rating must be the issuing agency's underlying rating, irrespective of any credit enhancements obtained from third party organizations.
b. No more than 5% of the total portfolio shall be invested in bonds issued by the State of California.
c. The maturity, mandatory put provision, or tender option date shall not exceed five years.

9.14.3 Category 3 - Bonds issued by any other local agency within the State of California

a. Obligations must be rated in a rating category of "A" or its equivalent or better by two of the three nationally recognized statistical rating organizations, Moody's, S&P or Fitch. No rating may be lower than the category described in the preceding sentence. Such ratings must be the issuing agency's underlying rating, irrespective of any credit enhancements obtained from third party organizations.
b. Investments in this category may not represent more than 10% of the issuing entity's outstanding debt.
c. The maturity, mandatory put provision, or tender option date shall not exceed five years.
d. No more than 5% of the total portfolio shall be invested in any one issuer.

9.14.4 Category 4 - Bonds issued by any of the other 49 states, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California.

a. Obligations must be rated in a rating category of "A" or its equivalent or better by two of the three nationally recognized statistical rating organizations, Moody's, S&P or Fitch, respectively. No rating may be lower than the category described in the preceding sentence. Such ratings must be the issuing agency's underlying rating, irrespective of any credit enhancements obtained from third party organizations.
b. The maturity, mandatory put provision, or tender option date shall not exceed five years.
c. Investments in this category may not represent more than 10% of the issuing entity's outstanding debt.
d. No more than 5% of the total portfolio shall be invested in any one issuer.

9.15 Investment Agreements (IA)

An IA is a contract providing for the lending of issuer funds to a financial institution (the "Provider") which agrees to repay the funds with interest under predetermined specifications. IAs may be used for the investment of bond proceeds in accordance with the permitted investment provisions of the specific bond indentures. To reduce the risk associated with a Provider's inability to meet its contractual obligations, the following safeguards are required in the use of an IA:

a. Competitive bidding of the investment agreement pursuant to the Internal Revenue Code and any regulations promulgated thereto;
b. Provider (or guarantor of Provider) rated in the "AA" rating category or its equivalent or better by at least two of three nationally recognized statistical rating organizations, Moody's, S&P or Fitch;
c. Provider's participation in the financing will not adversely affect the transaction, including the expected rating on the Bonds;
d. Provider downgrade provisions in order to (i) allow the City to terminate the Agreement and withdraw the par value (outstanding principal balance and accrued interest) of the invested proceeds with no penalty or (ii) to require the Provider to increase the collateral level;
e. Collateralization of at least 104% (including accrued interest);
f. The collateralization requirement does not apply to Conduit Financings;
g. Collateral held by a third party;
h. Securities accepted as collateral for repurchase agreements are U.S. Treasury or U.S. Federal Government Agency issues permitted by this Policy and including the limitations set for under Sections 9.1 and 9.2 of this Policy.
i. Agreement to include termination provisions in the event of Provider breach or Provider downgrade; and

j. Trustee to monitor the Provider's rating, securities, and collateral value on a weekly basis.

9.16 Stocks

From time to time stock may be received as a gift, through bankruptcies or as payment in lieu of monies due the City. Such stock shall be sold unless received through a gift or bequest with restrictions on its sale. Sale proceeds will be distributed to the appropriate program fund. If the stock has no market value or if the cost of selling it exceeds the market value, the stock will be written off or monitored periodically to be sold when a break-even market value can be realized. Such stocks will not be held for potential appreciation and sales will be executed in a reasonable timeframe and may result in loss of market value.

9.17 Collateralized Securities ~~Mortgage-Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO)~~

Collateralized Securities are debt obligations issued by certain federal governmental agencies and private entities to facilitate the funding of commercial and consumer loans. They include residential and commercial mortgage passthrough securities, collateralized mortgage obligations, asset backed securities collateralized by credit cards, automobile loans or student loans and equipment lease-backed certificates among others. Collateralized securities underwritten and issued by governmental agencies come with an implicit or explicit guarantee and thus essentially bear interest rate risk exposure subject to variable early repayment of principal. Collateralized securities underwritten and issued by private entities bear full credit exposure to the loans backing the securities and represent the primary risk to these investments. No more than 20% of the total portfolio shall be invested in collateralized securities.

9.17.1 Category 1 – Collateralized securities underwritten and issued by governmental a~~A~~gencies

a. These include governmental agency issued Mortgage Backed Securities (MBS), Commercial Mortgage Backed Securities (CMBS) and Collateralized Mortgage Obligations (CMO).
b. Must be rated at minimum in the "AA" rating category or its equivalent by Moody's, S&P or Fitch. If rated by more than one rating agency, the ratings may not be lower than the aforementioned by any of the rating agencies.
c~~b~~. The ~~MBS or CMO~~ security shall have a maximum remaining maturity of 5 years or less at the time of purchase, except with prior written approval from the Director of Finance.
d~~c~~. Maturities exceeding five years will be specifically delineated in the Quarterly Investment Report.
e~~d~~. No more than 15~~10~~% of the portfolio shall be invested in Category 1~~MBS and CMO~~ in aggregate.

9.17.2~~8~~ Category 2 – Collateralized securities underwritten and issued by private entities~~Asset Backed Securities (ABS)~~

a. These include private entity issued Mortgage Backed Securities (MBS), Commercial Mortgage Backed Securities (CMBS) and Asset Backed Securities (ABS)

b~~a~~. Must be rated at minimum in the "AA" rating category or its equivalent by Moody's, S&P or Fitch. If rated by more than one rating agency, the ratings may not be lower than the aforementioned by any of the rating agencies.

c~~b~~. The maximum remaining maturity of any ~~ABS~~ security shall not exceed 5 years at the time of purchase.

~~c. The ABS security shall only be backed by commercial and consumer receivables.~~

d. No more than 5% of the portfolio shall be invested in Category 2~~ABS~~.

9.1~~9~~8 Ineligible Investments

Ineligible investments include common stock (with the exception noted above in Section 9.16), inverse floaters, range notes, mortgage-derived interest-only strips, or any security that could result in zero interest accrual if held to maturity and any investments not authorized by this Policy unless otherwise approved by the City Council.

9.19~~20~~. Negative Rates

Notwithstanding the prohibition in Section 9.19, the City may invest in securities issued by, or backed by, the United States Government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. Such instruments may be held until their maturity dates.

9.20~~1~~ Combined Issuer/Institution Limits

No more than 5% of the portfolio shall be invested in aggregate of any single issuer of the following types: Bankers Acceptances, Commercial Paper, Negotiable Certificates of Deposits, and Corporate Notes.

10.0 COLLATERALIZATION

Collateralization is required on two types of investments: non-negotiable and collateralized time deposits and repurchase agreements.

10.1 Non-negotiable and collateralized time deposits with banks and savings and loans

Shall be collateralized in the manner prescribed by California Government Code 53652 for depositories accepting municipal investment funds.

10.2 Repurchase Agreements

a. The types of securities to be accepted as transferred securities in repurchase agreements in which the City is the buyer shall be limited to U.S. Treasury or U.S. Federal Government Agency issues permitted under this Policy. The City shall maintain a preference for collateral of shorter-term maturities.
b. The full market value (including accrued interest) of the securities used as collateral for the repurchase agreements shall not be allowed to fall below 102% of the value of the repurchase agreement as provided in the Master Repurchase Agreement.
c. Substitutions of transferred securities shall be limited to U.S. Treasury Securities permitted under this Policy and may not be made without prior written approval by the Director of Finance.

11.0 SAFEKEEPING AND CUSTODY

All securities owned by the City shall be held in safekeeping by the City's custodial bank or by a third-party bank trust department, acting as agent for the City under the terms of a custody agreement or master repurchase agreement. All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis through the City's safekeeping agent. Securities held in custody for the City shall be independently audited on an annual basis to verify investment holdings.

12.0 DIVERSIFICATION

The City, consistent with the primary objectives of safety, liquidity and yield, will diversify its investments by security type, issuer and maturity dates. Portfolio percentages and/or dollar limits are indicated in Section 9.0 of this Policy. The Director of Finance may choose to rebalance the portfolio if percentage imbalances are deemed to impair portfolio diversification.

13.0 MATURITIES

The City's investment portfolio shall be structured to ensure that sufficient funds from investments are available to meet the City's anticipated cash needs. The choice of investment instruments and maturities shall be based upon an analysis of anticipated cash needs, existing and anticipated revenues, interest rate trends and specific market opportunities. The weighted average maturity of the investment portfolio will not exceed two and a half years (913 days), and no investment will have a maturity of more than five years from its date of purchase unless specifically approved according to the provisions set forth elsewhere in this Policy.

14.0 INTERNAL CONTROLS

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the City's assets are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that those objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits to be derived and that the valuation of costs and benefits requires estimates and judgments by management. Internal control procedures shall address:

a. Separation of duties.
b. Control of collusion.
c. Custodial safekeeping.
d. Avoidance of physical delivery of securities.
e. Written confirmation of transfers for investments and wire transfers.
f. Written procedures for placing investment transactions.
g. Delegation of authority to investment officials.

15.0 PERFORMANCE STANDARDS

The investment portfolio shall be designed with the overall objective of safety, liquidity, and a rate of return on investment commensurate with the investment risk constraints and the cash flow needs.

Yield on the City's investment portfolio is of secondary importance to the safety and liquidity objectives described in Section 4.0 of the Policy.

16.0 MARKET YIELD (BENCHMARK)

The City's investment portfolio is generally managed using a "buy and hold" strategy. Given this strategy, the basis used by the Director of Finance to determine whether market yields are being achieved shall be to identify a benchmark comparable to the weighted average maturity and average composition of the investment portfolio, which varies over time. The benchmark used shall be delineated in the Quarterly Investment Report and may be modified due to material changes in the portfolio's composition or weighted average maturity. If the benchmark is changed, the modification shall be explained in the Quarterly Investment Report.

17.0 RESTRUCTURING TRANSACTIONS

17.1 <u>General Definitions</u>

The restructuring process involves a change in the composition of the portfolio such that the aggregate portfolio, after all transactions are executed, meets original goals and constraints of the Policy, and performance has been improved. Restructuring opportunities are not a function of time but rather a result of changing market conditions. Conditions that are generally favorable to restructurings are:

a. Availability of more beneficial issues.
b. Changes in the shape of the yield curve.
c. Changes in quality or sector spreads.

A restructured portfolio must continue to generate sufficient cash flow to meet the City's cash requirements without impairing the overall quality/diversification constraints of the portfolio.

17.2 Specific Requirements

a. Restructuring transactions in the City's portfolio shall not exceed 2.5% of the portfolio (par value) per month in original securities exchanged for replacement securities.
b. Prior conceptual approval shall be obtained in writing from the Director of Finance.
c. Executed restructuring transactions will be reported to the City Manager within 72 hours.
d. Executed restructuring transactions will be included in the Quarterly Investment Report.
e. Net sales gains or losses shall not be incurred to the point of radically altering the current month's earned interest yield (plus or minus 30 basis points).

18.0 REPORTING AND DISTRIBUTION

The Director of Finance shall prepare and submit Quarterly Investment Reports containing the information described in Section 19.0 to be posted to the City's internet site for public access and distribute a hard copy of the reports to the City Clerk's Office for public review. In the event there are exceptions to the Policy, the Director must report those exceptions as described in Section 20.0.

19.0 QUARTERLY INVESTMENT REPORTS

The Quarterly Investment Reports shall be placed on the next available agenda of the City Council Committee responsible for the review of Finance Department items after ~~the~~ electronic ~~distribution and~~ posting of the reports. At least semi-annually, the Committee shall receive an oral presentation on the contents of the Quarterly Investment Report as described in Section 5.5. The Quarterly Investment Report will include the following information: portfolio statistics, portfolio performance, compliance reporting requirements, investment trading activity and investment strategy:

19.1 Portfolio Statistics

a. Classification of the investment, the percentage of the total portfolio which each type of investment represents, issuer, CUSIP, purchase date,

date of maturity, par and dollar amount invested on all securities and investments.

b. Current market value.
c. Weighted average maturity of the investment portfolio.
d. Trend of average portfolio maturity.
e. Maturity aging by type of investment.
f. Unrealized gain or loss resulting from appreciation or depreciation in the market value of securities.
g. Portfolio turnover rate and trend.

19.2 Portfolio Performance

a. Weighted average yield on reporting quarter's purchases.
b. Weighted average yield on reporting quarter's sales and/or maturities.
c. Weighted average yield of the portfolio based upon book value as compared to a benchmark.
d. Trend of the monthly earned interest yield on investments.
e. Trend of the monthly days to maturity and yield.

19.3 Compliance Reporting Requirements

a. Cash management projection: Statement denoting the ability of the City to meet its expected obligations over the next six months.
b. Statement of compliance with the Policy: Reasons for and number of violations or exceptions to the investment policy during the quarter being reported on, as well as prior violations or exceptions which have not yet been corrected.
c. Comparison of budgeted investment earnings to actual earnings for the reporting quarter and fiscal year-to-date.
d. Distribution reports by bank and broker/dealer.

19.4 Investment Trading Activity

a. All investment transactions occurring during the quarter whether or not the transaction has been fully settled.
b. Separation of realized trading gains or losses from interest received on trading activity.
c. Aggregate commitments to purchase securities or make other payments to dealers in a manner to permit adequate cash need forecasting.
d. A brief description of executed reverse Repos and the associated interest cost and interest earnings from the transactions.
e. A brief description of executed restructuring transactions. Number and dollar volume of trades executed for the sole purpose of restructuring the portfolio and analysis of benefit derived from those trades.
f. A description of any security purchased during the quarter with a maturity exceeding five years.
g. A description of any security downgraded below the minimum acceptable ratings level (below prime for short term ratings, or below investment grade for long term ratings).

19.5 Investment Strategy

A description of the current investment strategy, and the assumptions upon which it is based.

20.0 REPORTING POLICY EXCEPTIONS

If the Director of Finance determines that an exception to one of the Policy's numerical limits is in the best interest of the City, and is otherwise consistent with the Policy, such exception is permitted so long as it is consistent with applicable City, State and Federal laws. Whenever an exception or violation of this Policy is made, that fact shall be reported to the City Manager within three business days, and to the City Council within 10 days of its discovery. All exceptions to the Policy and the appropriate explanation or justification for the exception shall be included in the Quarterly Investment Report. Fluctuations in portfolio assets can cause technical exceptions to the various percentage limits of the Policy which should not be interpreted as "reportable exceptions".

21.0 SEMI-ANNUAL COMPLIANCE AUDITS

No less than semi-annually each year, a compliance audit shall be conducted of the City's investment program to determine whether the investments within the City's pooled portfolio are in compliance with the City's Investment Policy, internal controls, and department procedures. If the City Council does not direct that the compliance audits be included in the City Auditor's annual work plan, then the Director of Finance shall cause such compliance audits to be conducted by an external auditor.

22.0 SOCIAL RESPONSIBILITY

In addition to and subordinate to the objectives set forth in Section 4.0 herein, investment of funds should be guided by the following socially responsible investment goals when investing in corporate securities and depository institutions. Investments shall be made in compliance with socially responsible investment goals as long as such investments achieve substantially equivalent safety, liquidity and yield compared to similar investments permitted by the Policy.

Investments are encouraged in i) entities that support community well-being through safe and environmentally sound practices and fair labor practices; ii) entities that support equality of rights for all protected categories/status included in the City Administrative Policy Manual 1.1.1. Discrimination and Harassment; and iii) entities that serve all members of the local community and promote community economic development. To the extent competing entities offer investment products of substantially equivalent safety, liquidity and yield, a Community Reinvestment Act rating of "satisfactory" or higher will be used as an investment criterion to differentiate between similar entities' investment products.

The City shall make no direct investments in entities that directly engage in exploration, production, refining, or marketing of fossil fuels.

This section applies to new investments only and does not require divestment of existing investments.

23.0 INVESTMENT POLICY REVIEW/ADOPTION

The Policy shall be adopted by resolution of the City Council on an annual basis. This Policy shall be reviewed annually to ensure its consistency with respect to the overall objectives of safety, liquidity and yield, and its relevance to current laws and financial trends. An annual Statement of Investment Policy including proposed amendments to the Policy shall be prepared by the Director of Finance for the review and recommendation of the City Council Committee assigned the responsibility for review of Finance Department reports prior to submission to the entire City Council for consideration and approval.

24.0 TRAINING AND CONTINUING EDUCATION

The City strives for professionalism and accountability in the investment of its funds. In order to ensure the highest possible professional standards, City Investment Officials, as defined in the Policy, are encouraged to complete at least 16 hours per year of continuing education programs or other training in cash and investment management.

25.0 GLOSSARY

Definitions of investment-related terms are listed on Exhibit B.

EXHIBIT A

LIST OF THE PRIMARY GOVERNMENT SECURITIES DEALERS REPORTING TO THE GOVERNMENT SECURITIES DEALERS STATISTICS UNIT OF THE FEDERAL RESERVE BANK OF NEW YORK

~~Amherst Pierpont Securities LLC~~
ASL Capital Markets Inc.
Bank of Montreal, Chicago Branch
Bank of Nova Scotia, New York Agency
BNP Paribas Securities Corp.
Barclays Capital Inc.
BofA Securities, Inc.
Cantor Fitzgerald & Co.
Citigroup Global Markets Inc.
~~Credit Suisse AG, New York Branch~~
Daiwa Capital Markets America Inc.
Deutsche Bank Securities Inc.
Goldman, Sachs & Co. LLC
HSBC Securities (USA) Inc.
Jefferies LLC
J. P. Morgan Securities LLC
Mizuho Securities USA LLC
Morgan Stanley & Co. LLC
NatWest Markets Securities Inc.
Nomura Securities International, Inc.
RBC Capital Markets, LLC
Santander US Capital Markets LLC
Societe Generale, New York Branch
TD Securities (USA) LLC
UBS Securities LLC
Wells Fargo Securities, LLC

NOTE: Primary dealers are trading counterparties of the Federal Reserve Bank of New York in its implementation of monetary policy. Primary dealers are also expected to make markets for the Federal Reserve Bank of New York on behalf of its official accountholders as needed, and to bid on a pro-rata basis in all United States Treasury auctions at reasonably competitive prices.

This list has been compiled and made available for statistical purposes only and has no significance with respect to other relationships between dealers and the Federal Reserve Bank of New York. Qualification for the reporting list is based on the achievement and maintenance of the standards outlined in the Federal Reserve Bank of New York's memorandum of January 22, 1992.

NOTE: This list has been verified as of January 18, 2024~~April 4, 2022~~ and may change from time to time. An updated list can be found online at https://www.newyorkfed.org/markets/primarydealers.html.

EXHIBIT B

GLOSSARY

ACCRETION: Adjustment of the difference between the price of a bond bought at an original discount and the par value of the bond.

AGENCIES: Federal agency securities and/or Government-sponsored enterprises (GSEs), also known as U.S. Government instrumentalities. Securities issued by Government National Mortgage Association (GNMA) are considered true agency securities, backed by the full faith and credit of the U.S. Government. GSEs are financial intermediaries established by the federal government to fund loans to certain groups of borrowers, for example homeowners, farmers and students and are privately owned corporations with a public purpose. The most common GSEs are Federal Farm Credit System Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Association, and Federal National Mortgage Association.

AMORTIZATION: Accounting procedure that gradually reduces the cost value of a limited life or intangible asset through periodic charges to income. For fixed assets, the term used is "depreciation". It is common practice to amortize any premium over par value paid in the purchase of preferred stock or bond investments.

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR): The official annual financial report for the City. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

APPRECIATION: Increase in the value of an asset such as a stock, bond, commodity or real estate.

ASKED PRICE: The price a broker/dealer offers to sell securities.

ASSET-BACKED: A type of security that is secured by receivables, such as credit card and auto loans. These securities typically pay principal and interest monthly.

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. This money market instrument is used to finance international trade.

BASIS POINT: One-hundredth of one percent (i.e., 0.01%).

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 investment.

BID PRICE: The price a broker/dealer offers to purchase securities.

BOND: A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

BOOK RATE OF RETURN: A measure of a portfolio's performance over time. It is the internal rate of return which equates the beginning value of the portfolio with the ending value, and includes interest earnings, and realized gains and losses on the portfolio.

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

BROKER: An agent that acts as an intermediary between a buyer and seller for a commission, and does not trade for his/her own risk and account or inventory.

CALLABLE SECURITIES: A security that can be redeemed by the issuer before the scheduled maturity date.

CASH FLOW: An analysis of all changes that affect the cash account during a specified period.

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

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

COLLATERALIZED MORTGAGE OBLIGATION (CMO): A type of mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

COLLATERALIZED SECURITIES: Debt obligations that represent claims to the cash flows from pools of loan receivables, most commonly on residential property and extending to commercial property, automobiles, student borrowings, equipment financings and more. Loans are purchased from banks, mortgage companies, and other originators and then assembled into pools by a governmental, quasi-governmental, or private entity. The entity then issues securities that represent claims on the principal and interest payments made by borrowers on the loans in the pool, a process known as securitization and such issuances represent a vast portion of the bond market.

COMMERCIAL MORTGAGE-BACKED SECURITY (CMBS): A type of fixed income investment product that is backed by mortgages on commercial properties rather than residential real estate. CMBS can provide liquidity to real estate investors and commercial lenders alike. There are two types of CMBS, agency CMBS, which consist of loans pooled by government-sponsored entities (GSEs) including Fannie Mae and Freddie Mac, and non-agency (private) CMBS, which consist of loans pooled and securitized by private lenders.

COMMERCIAL PAPER: Short-term, unsecured, negotiable promissory notes of corporations.

COMMERCIAL RECEIVABLES: Business debt owed to a creditor which may be used as collateral for asset backed securities. These receivables include equipment leases, building leases, and other business loans.

CONDUIT FINANCING: A financing in which a governmental agency issues debt and the proceeds of the issue are loaned to a nongovernmental borrower who then applies the proceeds for a project financing or (if permitted by federal tax laws for a qualified 501(c)(3) bond) for working capital purposes.

CONSUMER RECEIVABLES: Consumer debt owed to a creditor which may be used as collateral for asset backed securities. These receivables include credit card, auto, and home equity loans.

CORPORATE NOTE: Debt instrument issued by a private corporation.

COUPON: The annual rate at which a bond pays interest.

CREDIT ANALYSIS: An analysis of the economic and financial conditions to determine creditworthiness or the ability to meet debt obligations.

CREDIT RATINGS: A grade given to a debt instrument that indicates its credit quality. Private independent rating services such as Standard & Poor's, Moody's and Fitch provide these evaluations of the issuer's financial strength, or its ability to pay principal and interest in a timely fashion. High graded credit ratings are as follows:

<table>
<tr><th colspan="2">Moody's</th><th colspan="2">Standard & Poor’s</th><th colspan="2">Fitch</th></tr>
<tr><td>Long Term</td><td>Short Term</td><td>Long Term</td><td>Short Term</td><td>Long Term</td><td>Short Term</td></tr>
<tr><td>Aaa</td><td rowspan="6">P1</td><td>AAA</td><td rowspan="4">A1+</td><td>AAA</td><td rowspan="6">A1+</td></tr>
<tr><td>Aa1</td><td>AA+</td><td>AA+</td></tr>
<tr><td>Aa2</td><td>AA</td><td>AA</td></tr>
<tr><td>Aa3</td><td>AA-</td><td>AA-</td></tr>
<tr><td>A1</td><td>A+</td><td rowspan="2">A1</td><td>A+</td></tr>
<tr><td>A2</td><td>A</td><td>A</td></tr>
<tr><td>A3</td><td rowspan="2">P2</td><td>A-</td><td rowspan="2">A2</td><td>A-</td><td rowspan="2">A2</td></tr>
<tr><td>Baa1</td><td>BBB+</td><td>BBB+</td></tr>
</table>

CREDIT RISK: The risk that an obligation will not be paid, and a loss will result due to a failure of the issuer of a security.

CUSIP: Stands for Committee on Uniform Securities Identification Procedures. A CUSIP number identifies most securities, including: stocks of all registered U.S. and Canadian companies, and U.S. government and municipal bonds. The CUSIP system—owned by the American Bankers Association and operated by Standard & Poor’s—facilitates the clearing and settlement process of securities. The number consists of nine characters (including letters and numbers) that uniquely identify a company or issuer and the type of security.

CURRENT YIELD: The annual interest rate on an investment divided by the current market value. Since the calculation relies on the current market value rather than the investor’s cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

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

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

DEBENTURES: A bond secured only by the general credit of the issuers.

DEFEASED BOND ISSUES: Issues that have sufficient money to retire outstanding debt when due, so that the agency is released from the contracts and covenants in the bond documents.

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

DERIVATIVE: A financial instrument that is based on, or derived from, some underlying asset, reference date, or index.

DIRECT ISSUER: Issuer markets its own paper directly to the investor without use of an intermediary.

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

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

DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. Duration measures the price sensitivity of a bond to changes in interest rates.

EARNED INCOME YIELD THIS PERIOD (annualized): The Total net Earnings this period divided by Average Daily Portfolio Balance and the number of days in the period, multiplied by 365 (or 360 depending on the profile setting), and then multiplied by 100.

FACE VALUE: The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

FAIR VALUE: The amount at which a security could be exchanged between willing parties, other than in a forced or liquidation sale. If a market price is available, the fair value is equal to the market value.

FANNIE MAE: Trade name for the Federal National Mortgage Association (FNMA), a U.S. government sponsored enterprise.

FARMER MAC: Trade name for the Federal Agricultural Mortgage Corporation, a U.S. government sponsored enterprise.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION: A U.S. government sponsored enterprise that establishes a secondary market for agriculture mortgages and rural utility loans. Its securities do not carry direct U.S. government guarantees.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that provides insurance on bank deposits, guaranteeing deposits to a set limit per depositor, per insured bank, for each account ownership category, currently $250,000.

FEDERAL FARM CREDIT BANK (FFCB): Government-sponsored enterprise that consolidates the financing activities of the Federal Land Banks, the Federal Intermediate Credit Banks and the Banks for Cooperatives. Its securities do not carry direct U.S. government guarantees.

FEDERAL FUNDS RATE: The rate of interest at which Federal funds are traded. This rate is considered to be the most sensitive indicator of the direction of interest rates, as it is currently pegged by the Federal Reserve through open-market operations.

FEDERAL GOVERNMENT AGENCY SECURITIES: 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 or United States government-sponsored enterprises.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored enterprise (currently made up of 12 regional banks) that regulates, lends funds, and provides correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. Although the banks operate under federal charter with government supervision, the securities are not guaranteed by the U. S. Government.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): Government sponsored enterprise that helps maintain the availability of mortgage credit for residential housing. FHLMC is a private stockholder-owned corporation. FHLMC finances these operations by marketing guaranteed mortgage certificates and mortgage participation certificates. Its discount notes and bonds do not carry direct U.S. government guarantees.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): Government sponsored enterprise that is the largest single provider of residential mortgage funds in the United States. FNMA is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA securities do not carry direct U.S. Government guarantees.

FEDERAL OPEN MARKET COMMITTEE (FOMC): A committee of the Federal Reserve Board, which establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

FEDERAL RESERVE SYSTEM: The central bank of the U.S. which consists of a seven member Board of Governors, the Federal Open Market Committee (FOMC), and 12 regional banks. There are approximately 5,700 commercial banks that are members.

FED WIRE: A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

FREDDIE MAC: Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. government sponsored enterprise.

FITCH INDIVIDUAL BANK RATINGS: Individual Ratings are assigned to banks that are legal entities. These ratings, which are internationally comparable, attempt to assess how a bank would be viewed if it were entirely independent and could not rely on external support. These ratings are designed to assess a bank's exposure to, appetite for, and management of risk, and thus represent the agency's view on the likelihood that it would run into significant financial difficulties such that it would require support. The ratings are as follows:

A: A very strong bank.
Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.

B: A strong bank.
There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects.

C: An adequate bank, which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.

D: A bank that has weaknesses of internal and/or external origin.
There are concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects. Banks in emerging markets are necessarily faced with a greater number of potential deficiencies of external origin.

E: A bank with very serious problems, which either requires or is likely to require external support.

F: A bank that has either defaulted or, in Fitch Ratings' opinion, would have defaulted if it had not received external support. Examples of such support include state or local government support, (deposit) insurance funds, acquisition by some other corporate entity or an injection of new funds from its shareholders or equivalent.

Note: Gradations may be used among the ratings A to E: i.e. A/B, B/C, C/D, and D/E. No gradations apply to the F rating.

GINNIE MAE: Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB): A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

GUARANTEED INVESTMENT CONTRACTS (GICS): An agreement acknowledging receipt of funds, for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

INACTIVE DEPOSITS: Funds not immediately needed for disbursement.

INTER-AMERICAN DEVELOPMENT BANK (IADB): Established in 1959, IADB supports Latin American and Caribbean economic development, social development, and regional integration by lending to governments and government agencies. The U.S. is a member of IADB.

INTEREST RATE: The annual yield earned on an investment, expressed as a percentage.

INTEREST RATE RISK: The risk of gain or loss in market values of securities due to changes in interest-rate levels. For example, rising interest rates will cause the market value of portfolio securities to decline.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD): IBRD is one of the five member institutions within the World Bank Group. It issues World Bank bonds and provides commercial-grade or concessional financing to middle to low-income sovereign states. The U.S. is a member of IBRD.

INTERNATIONAL FINANCE CORPORATION (IFC): IFC is a member of the World Bank Group. It is a global development institution that invests strictly in private sectors to reduce poverty and promote development in developing countries. The U.S. is a member of IFC.

INVESTMENT AGREEMENTS: A contract providing for the lending of issuer funds to a financial institution which agrees to repay the funds with interest under predetermined specifications.

INVESTMENT GRADE (LONG TERM RATINGS): The minimum, high quality ratings for long term debt such as corporate notes. Investment Grade ratings are as follows: A3 (Moody's), A- (S&P), and A- (Fitch).

INVESTMENT PORTFOLIO: A collection of securities held by a bank, individual, institution or government agency for investment purposes.

LIQUIDITY: The ability or ease with which an asset can be converted rapidly into cash with minimum risk of principal.

LOCAL AGENCY INVESTMENT FUND (LAIF): An investment pool sponsored by the State of California and administered/managed by the State Treasurer. Local government units, with consent of the governing body of that agency, may voluntarily deposit surplus funds for the purpose of investment. Interest earned is distributed by the State Controller to the participating governmental agencies on a quarterly basis.

LOCAL AGENCY INVESTMENT POOL: A pooled investment vehicle sponsored by a local agency or a group of local agencies for use by other local agencies.

MARK TO MARKET: Current value of securities at today's market price.

MARKET RISK: The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates. Systematic risk of a security that is common to all securities of the same general class (stocks, bonds, notes, money market instruments) and cannot be eliminated by diversification (which may be used to eliminate non-systematic risk).

MARKET VALUE: The price at which a security is currently being sold in the market. See FAIR VALUE.

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

MATURITY: The date that the principal or stated value of a debt instrument becomes due and payable.

MEDIUM-TERM NOTES (MTNs): Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION: The percent change in price for a 100-basis point (1%) change in yields. This is a measure of a portfolio’s or security’s exposure to market risk.

MONEY MARKET: The market in which short term debt instruments (Treasury Bills, Discount Notes, Commercial Paper, Banker’s Acceptances and Negotiable Certificates of Deposit) are issued and traded.

MORTGAGED BACKED SECURITIES: A type of security that is secured by a mortgage or collection of mortgages. These securities typically pay principal and interest monthly.

MUNICIPAL BONDS: Debt obligations issued by states and local governments and their agencies, including cities, counties, government retirement plans, school districts, state universities, sewer districts, municipally owned utilities and authorities running bridges, airports and other transportation facilities

MUTUAL FUND: An entity that pools money and can invest in a variety of securities which are specifically defined in the fund’s prospectus.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO): A credit rating agency that assesses the credit worthiness of an obligor as an entity or with respect to specific securities or money market instruments. US Securities and Exchange Commission establishes a registration and oversight program for NRSROs.

NEGOTIABLE CERTIFICATE OF DEPOSIT: A large denomination certificate of deposit which can be sold in the open market prior to maturity.

NET PORTFOLIO YIELD: Calculation in which the 365-day basis equals the annualized percentage of the sum of all Net Earning during the period divided by the sum of all Average Daily Portfolio Balances.

NEW ISSUE: Term used when a security is originally “brought” to market.

NOTE: A written promise to pay a specified amount to a certain entity on demand or on a specified date.

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

PAR VALUE: The amount of principal which must be paid at maturity. Also referred to as the face amount of a bond. See FACE VALUE.

PORTFOLIO: The collection of securities held by an individual or institution.

PREMIUM: The difference between the par value of a bond and the cost of the bond, when the cost is above par.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity, positions and monthly financial statements to the Federal Reserve Bank of New York, and are subject to its informal oversight. These dealers are authorized to buy and sell government securities in direct dealing with the Federal Reserve Bank of New York in its execution of market operations to carry out U.S. monetary policy. Such dealers must be qualified in terms of reputation, capacity, and adequacy of staff and facilities.

PRIME (SHORT TERM RATING): High quality ratings for short term debt such as commercial paper. Prime ratings are as follows: P1 (Moody's), A1 (S&P), and F1 (Fitch).

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

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

PRUDENT INVESTOR STANDARD: A standard of conduct for fiduciaries.–Investments shall be made with 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.

PUBLIC DEPOSITS: A bank that is qualified under California law to accept a deposit of public funds.

PURCHASE DATE: The date in which a security is purchased for settlement on that or a later date. Also known as the "trade date".

RATE OF RETURN: 1) The yield which can be attained on a security based on its purchase price or its current market price. 2) Income earned on an investment, expressed as a percentage of the cost of the investment.

REALIZED GAIN (OR LOSS): Gain or loss resulting from the sale or disposal of a security.

REGIONAL DEALER: A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

REPURCHASE AGREEMENT (RP or REPO): A transaction in which a counterparty or the holder of securities (e.g. investment dealer) sells these securities to an investor (e.g. the City) with a simultaneous agreement to repurchase them at a fixed date. The security "buyer" (e.g. the City) in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the “buyer” 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.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): The opposite of a repurchase agreement. A reverse Repo is a transaction in which the City sells securities to a counterparty (e.g. investment dealer) and agrees to repurchase the securities from the counterparty at a fixed date. The counterparty in effect lends the seller (e.g. the City) money for the period of the agreement with terms of the agreement structured to compensate the buyer.

RISK: Degree of uncertainty of return on an asset.

SAFEKEEPING: A service which banks offer to clients for a fee, where physical securities are held in the bank’s vault for protection and book-entry securities are on record with the Federal Reserve Bank or Depository Trust Company in the bank’s name for the benefit of the client. As agent for the client, the safekeeping bank settles securities transactions, collects coupon payments, and redeems securities at maturity or on call date, if called.

SECURITIES AND 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.

SECONDARY MARKET: A marketplace for the repurchase and resale of outstanding issues following the initial distribution.

SECURITIES: Investment instruments such as notes, bonds, stocks, money market instruments and other instruments of indebtedness or equity.

SETTLEMENT DATE: The date on which a trade is cleared by delivery of securities against funds.

SPREAD: The difference between two figures or percentages. It may be the difference between the bid (price at which a prospective buyer offers to pay) and asked (price at which an owner offers to sell) prices of a quote, or between the amount paid when bought and the amount received when sold.

STRUCTURED NOTE: A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include "inverse floating rate" notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising and "dual index floaters", which pay interest based on the relationship between two other interest rates, for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

STUDENT LOAN MARKET ASSOCIATION (SLMA): Government-sponsored enterprise that purchases student loans from originating financial institutions and provides financing to state student loan agencies. It provides a national secondary market for federally sponsored student loans and credit to participants in the post-secondary education lending sector.

SUBORDINATED DEBT: Debt over which senior debt has priority. In the event of a bankruptcy, subordinated debt holders receive payment only after senior debt holders are paid in full.

SUPRANATIONALS: International development institutions that provide development financing, advisory services, and other financial services to member countries to promote improved living standards through sustainable local economic growth.

TIME DEPOSIT: A deposit with a California bank or savings and loan association for a specific amount and with a specific maturity date and interest rate. Deposits of up to $250,000 are insured by FDIC. Deposits over $100,000 are collateralized above the insurance with either government securities (at 110% of par value), first trust deeds (at 150% of par value), or letters of credit (at 105% of par value).

TOTAL RATE OF RETURN: A measure of a portfolio's performance over time. It is the internal rate of return which equates the beginning value of the portfolio with the ending value and includes interest earnings and realized and unrealized gains and losses on the portfolio. For bonds held to maturity, total return is the yield to maturity.

TRUSTEE OR TRUST COMPANY OR TRUST DEPARTMENT OF A BANK: A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

UNDERWRITER: A dealer which purchases a new issue of municipal securities for resale.

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

U.S. GOVERNMENT AGENCY SECURITIES: Securities issued by U.S. government agencies, most of which are secured only by the credit worthiness of the particular agency. See AGENCIES.

U.S. TREASURY OBLIGATIONS: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are the benchmark for interest rates on all other securities in the U.S. The Treasury issues both discounted securities and fixed coupon notes and bonds. The income from Treasury securities is exempt from state and local, but not federal, taxes.

TREASURY BILLS: Securities issued at a discount with initial maturities of one year or less. The Treasury currently issues three-month and six-month Treasury bills at regular weekly auctions. It also issues very short-term "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES: Intermediate-term coupon-bearing securities with initial maturities of one year to ten years.

TREASURY BOND: Long-term coupon-bearing securities with initial maturities of ten years or longer.

UNREALIZED GAIN (OR LOSS): Gain or loss that has not become actual. It becomes a realized gain (or loss) when the security in which there is a gain or loss is actually sold. See REALIZED GAIN (OR LOSS).

VOLATILITY: Characteristic of a security, commodity or market to rise or fall sharply in price within a short-term period.

WORLD BANK GROUP: The World Bank Group is an international anti-poverty institution offering loans, advice and customer resources to more than 100 developing countries. It was established in 1944. The U.S. is a member of the World Bank.

WEIGHTED AVERAGE MATURITY: The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

WEIGHTED AVERAGE YIELD AT THE END OF PERIOD: The summation of each investment's period-end scheduled book value multiplied by its ending sub-period yield and divided by the total scheduled book value. Investments maturing on or before the end date of the report period will not affect the weighted average yield.

WHEN ISSUED (WI): Short form of "when, as, and if issued." WI refers to a transaction made conditionally because a security, although authorized, has not yet been issued with the exception of new Treasury, Agency, and Corporate issuances to settle within 21 days.

YIELD: The annual rate of return on an investment expressed as a percentage of the investment. See CURRENT YIELD; YIELD TO MATURITY.

YIELD CURVE: Graph showing the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

YIELD TO MATURITY: Concept used to determine the rate of return if an investment is held to maturity. It takes into account purchase price, redemption value, time to maturity, coupon yield, and the time between interest payments. It is the rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.