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**CITY OF HEMET
HEMET, CALIFORNIA
RESOLUTION NO. 2023-060**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY
OF HEMET, CALIFORNIA, APPROVING INVESTMENT
POLICY AND RESCINDING RESOLUTION 2021-135**

The City Council of the City of Hemet, California (hereafter referred to as the "City Council") does resolve as follows:

WHEREAS, On December 14, 2021, Council approved Resolution No. 2021-135 Establishing an Investment Policy and Rescinding Resolution No. 2020-083; and

WHEREAS, It is best practice to adopt an updated Investment Policy annually;
and

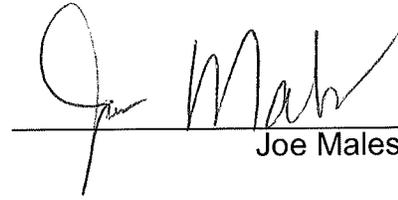
WHEREAS, Public Trust Advisors has reviewed the City's Investment Policy and recommended changes to reflect updates to confirm compliance with the California Government Code; and

WHEREAS, The City currently has approximately \$177 million in pooled cash balances for all City Funds including the General Fund.; and

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF HEMET FINDS, DETERMINES, ORDERS AND RESOLVES AS FOLLOWS: The statement of Investment Policy of the City of Hemet is approved and attached as Exhibit A.

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PASSED, APPROVED AND ADOPTED this 11th day of April, 2023.



Joe Males, Mayor

ATTEST:


John Paul Maier, City Clerk

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State of California)
County of Riverside)
City of Hemet)

I, John Paul Maier, City Clerk of the City of Hemet, do hereby certify that the foregoing resolution was adopted by the Hemet City Council on the 11th day of April, 2023, and was passed by the following vote:

AYES: Council Members: Krupa, Peterson, Mayor Pro Tem Lilienthal,
 Mayor Males
NOES: Council Members: None.
ABSTAIN: Council Members: None.
ABSENT: Council Members: Meyer



John Paul Maier, City Clerk

**STATEMENT OF INVESTMENT POLICY OF THE
CITY OF HEMET**

I. INTRODUCTION:

The City Council of the City of Hemet and its related authorities and agencies recognizes its responsibility to properly direct the investments of funds under its care. The purpose of this Statement of Investment Policy is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment process.

The initial step toward a prudent investment policy is to organize and formalize investment-related activities. Related activities which comprise good cash management include accurate cash projection, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations, and a short-term borrowing program which coordinates working capital requirements and investment opportunity.

In concert with these requirements are the many facets of an appropriate and secure short-term investment program. The City shall conform to all applicable California laws pertaining to the investment of surplus public funds. In instances in which this Policy is more restrictive than Federal or State law, the Policy supersedes.

II. SCOPE:

A. This Policy covers all surplus funds and related investment activities under the direct authority of the City of Hemet. These funds are accounted for in the City's Annual Comprehensive Financial Report (ACFR) and include:

1. General Fund
2. Special Revenue Fund
3. Debt Service Fund
4. Capital Project Funds
5. Internal Service Funds
6. Agency Funds
7. Enterprise Funds

The City Council has the authority to allow investments that do not follow this Policy provided such investments are recommended by the Investment Oversight Committee, expressly authorized by the City Council, and in compliance with applicable law.

B. At the time this Policy is adopted, the portfolio may hold investments which were made in the past and in accordance with previous and existing law, but do not meet the provisions of this Policy. These past investments are grandfathered as permissible investments under this Policy. The City Council, may, by express authorization, decide to hold these investments until maturity, unless otherwise prohibited by law.

C. Funds excluded from this Policy:

1. Bond Proceeds. The investment of bond proceeds will be dictated by the bond documents governing such funds provided the documents are approved by the City Council. To the extent consistent with the bond documents, it is the preference of the City that the proceeds be invested in compliance with this Policy.
2. Employee Deferred Compensation. Investments related to the City's deferred compensation plans are not subject to this Policy since third party administrators manage them and the individual plan participant's direct investment and mutual fund selection. Deferred compensation plans must be approved by the City Council.

III. OBJECTIVES:

The primary objective, in priority order, of investment activities shall be safety, liquidity, and yield.

A. Safety. The primary objective of this Policy and the responsibility of the City Manager or their designee are to safeguard the principal of the City funds placed in his or her trust on behalf of the citizens of the City of Hemet. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

1. Credit risk - Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The City shall seek to mitigate credit risk by adopting the following strategies:
 - Adhering to the investment type, credit quality requirements, and diversification limits set forth in Section X of this policy.
 - Thoroughly review the credit quality of all credit-sensitive securities prior to purchase and provided ongoing monitoring and evaluation of the issuer's financial performance, credit characteristics, and credit outlook.
 - Utilizing an active management strategy that allows for the sale of securities at realized gains or losses prior to their scheduled maturity dates for purposes of improving the portfolio's credit quality, liquidity, yield, or return profile in response to changing market conditions or City circumstances.
 - Reviewing downgraded securities. Should the credit rating of a security owned by the City be downgraded to a level below that required for purchase by this Investment Policy, the City will review the credit situation and determine if such securities should be sold or retained in the portfolio based upon its remaining term to maturity, the credit outlook for the issuer, and other relevant facts and circumstances

- Monitoring any downgraded securities. If the decision is made to retain a downgraded security, it will be closely monitored by the City and reported on quarterly to the Investment Committee

2. Interest rate risk – Interest rate risk is the risk that the value of a security or portfolio will fluctuate due to changes in the general level of interest rates. The City understands that while longer-term portfolios have the potential to generate higher investment returns over time, they also exhibit a greater volatility of return. In addition, the City further recognizes certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded call options, will affect the market risk characteristics of the portfolio differently. Accordingly, the City will mitigate market risk by adopting the following strategies:

- The City shall maintain sufficient balances in short-term investments to provide liquidity for expected and contingent expenditures thereby limiting the need to sell securities prior to maturity. Liquidity funds shall be maintained in short-term investments such as LAIF, deposit accounts collateralized in accordance with state law, and money market funds and instruments with minimal market risk.
- Structuring the investment portfolio so that securities mature in advance of known or anticipated cash flow requirements.
- Limiting the maximum stated final maturity of any security in the portfolio to five years.
- Limiting the maximum percentage of callable securities (excluding securities with “make whole” call provisions and those with call dates that fall within three months from the securities legal final maturity date) held in the portfolio to no greater than 20%.
- Limiting the weighted average duration of the actively managed portion of the portfolio, (i.e. non-liquidity funds) to a range of +/- 25% the duration of a market benchmark as selected by the City based upon the City’s risk tolerances and investment objectives.

B. Liquidity. The secondary objective of this Policy is to meet the liquidity needs of the City. An adequate percentage of the portfolio should be maintained in liquid short-term investments which can be converted to cash if necessary to meet the City's liquidity requirements. Since all cash requirements cannot be anticipated, investment in securities with active secondary or resale markets is highly recommended. Emphasis should be on marketable securities with sensitivity to market risk that is consistent with the City’s risk tolerance.

C. Rate-of-Return. The tertiary objective of this Policy and the responsibility of the City Manager or their designee are to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the agency's risk constraints, the

cash flow characteristics of the portfolio, State and local laws and City Policy that restrict investments. Return on investment should become a consideration only after the basic requirements of safety and liquidity have been met.

- D. Diversification. The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.
- E. Prudent Investor Rule. The City of Hemet adheres to the guidance provided by the "prudent investor rule," as stated in California Government Code §53600.3 which obligates a fiduciary to ensure that:

"When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

- F. Public Trust All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public view and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio it must be recognized that occasional measured losses are inevitable and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.
- G. Limitation on Liability. The City Manager, City staff, Investment officers, and other authorized persons acting in accordance with written procedures, the investment policy, and exercising due diligence shall be relieved of personal responsibility for an individual's security credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.
- H. Annual Review of Policy. The Investment Oversight Committee will review this Policy annually to ensure its consistency with the primary, secondary and tertiary Policy objectives and its relevance to current law, as well as financial and economic trends.

IV. DELEGATION OF INVESTMENT AUTHORITY:

- A. The Hemet City Council, as permitted under California Government Code section 53607 delegates, the responsibility to invest or reinvest the surplus public funds of the City or to sell or exchange securities so purchased, to the City Manager or their designee who shall be responsible for all transactions undertaken and shall establish a system of

controls to regulate activities of subordinate officials and their procedures in the absence of the City Manager or their designee. Authority to manage the City of Hemet's investment program is derived from City of Hemet Council Resolution No. 2021-019 Subject to review and consultation with the Investment Oversight Committee, management responsibility for the investment program is hereby delegated to the City Manager or their designee, who may establish written procedures for the operation of the investment program consistent with this Policy. Procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, banking service contracts, and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the City Manager or their designee.

- B. The City may contract with one or more third party investment managers to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such third-party managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940 and specialize in the management of public funds fixed income portfolios.

- C. The Investment Oversight Committee will provide periodic oversight to the investment function which includes but is not limited to reviewing investment reports issued by the City Manager or their designee and/or third-party investment advisors.

- D. The City Council's primary responsibilities over the investment function include approving the Statement of Investment Policy, approving the contracts with third-party investment advisors, if any, reviewing and approving Policy updates recommended by the Investment Oversight Committee, reviewing monthly investment reports issued by the City Manager or their designee and/or third-party investment advisors, authorizing bond documents and other unique financing transactions, and authorizing in advance any deviations from the Policy.

- E. Only the City Manager or their designee, Director of Finance, other duly authorized City staff, and contracted third-party investment advisors are authorized to make investments on behalf of the City's portfolio. Only the City Manager or their designee, Director of Finance, and other duly authorized City staff are authorized to make wire or electronic fund transfers, and to order the shipment and delivery of investment securities among custodial security clearance accounts.

V. INVESTMENT OVERSIGHT COMMITTEE

- A. The Investment Oversight Committee ("Committee") for the City of Hemet is established as an advisory body to the City Manager or their designee. The Committee shall consist of 5 members; the City Treasurer and 4 members appointed by the City Council.
- B. The functions of the Committee shall be as follows:
 - 1. The primary function of the Committee shall be to consult with the City Manager or their designee and/or contracted third-party investment advisors regarding overall investment strategy and the best methods of obtaining higher rates-of-return on investments and interest yields consistent with the prioritized investment objectives (safety, liquidity, then yield) and other requirements of the Policy. The role of the Committee is advisory with the responsibility remaining with the City Manager or their designee, and any contracted third-party investment advisors to make and implement investment transactions as provided in Section IV.A of the Policy.
 - 2. Annually review the Policy and periodically the monthly investment reports prepared by the City Manager or their designee and/or third-party investment advisors.
 - 3. Cause an annual audit to be conducted to determine the City Manager or their designee's compliance with the Policy and California law and discuss its findings at an open meeting of the Committee or City Council. The audit may examine the structure of the investment portfolio and risk.
 - 4. The Committee shall meet at least once every 4 months. The Committee may meet more often as deemed necessary to fulfill its functions.

VI. INVESTMENT CONTROLS:

- A. The Investment Oversight Committee shall oversee that the City Manager or their designee implements and maintains a system of internal investment controls and segregated responsibilities of the investment function in order to prevent the following:
 - 1. Fraud
 - 2. Theft
 - 3. Loss of principal
 - 4. Loss of control over funds
 - 5. Inaccurate reporting
 - 6. Negligence
 - 7. Over reliance on single employee for investment decisions
- B. Internal controls should include, but are not limited to:
 - 1. Segregation of duties (e.g., the purchaser of investments is different than the person recording the transaction).
 - 2. Reconciliation of investment report and cash balances. and

3. Dual authorization of transactions.
- C. An external auditor will review the investment program annually in order to provide reasonable assurance that policies and procedures are complied with.

VII. MONTHLY REPORTING:

In accordance with Government Code Section 53646(b) the City Manager or their designee, working in conjunction with any third-party investment advisors, shall submit to the Investment Committee a monthly report that will then be taken to the City Council. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values, summary of monthly transactions and the current market values of each component of the portfolio, including funds managed for the City of Hemet by third party contract managers. The report will also include the source of the portfolio valuation. As specified in Government Code 53646(e), if all funds are placed in the Local Agency Investment Fund (LAIF), FDIC insured accounts and/or county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certification that (1) all investment actions executed since the last report have been in full compliance with the investment policy, and, (2) the City of Hemet will meet its expenditures obligations within the cash flow needs.

VIII. COLLATERALIZATION:

- A. Bank Deposits. Under provisions of the Government Code, California banks and savings and loan associations are required to secure the City's deposits by pledging government securities with a value of 110% of principal and accrued interest. State law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total deposits.
- B. Certificates of Deposit.
1. The market value of securities that underlay certificates of deposit shall be valued at 110% of the market value of principal accrued interest,
 2. The City Manager or their designee, at his or her discretion may waive the collateral requirement for certificate of deposit up to the maximum dollar amount which are covered by the Federal Deposit Insurance Corporation.
- C. Repurchase Agreements.
1. The market value of securities that underlay certificates of deposit shall be valued at 102% of the market value of principal and accrued interest.
 2. The value shall be adjusted no less than weekly. Once the market value of the underlying securities is subject to daily market fluctuations, the investment in repurchase agreements shall be in compliance if the value of the underlying securities is brought back to 102% no later than the next business day.

- D. A clearly marked evidence of ownership, safekeeping receipt, must be supplied to the City and retained.
- E. The City chooses to limit collateral to U.S. Treasuries.
- F. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement.
- G. The right of collateral substitution is granted based on the approval of the City Manager or their designee.

IX. SECURITY CUSTODY AND DELIVERIES

- A. All security collateral shall be deposited for safekeeping with banks contracted to provide the City with custodial security clearance and safekeeping services. These third-party trust department arrangements provide the City with a perfected interest in, and ownership and control over the securities held by the custodian on the City's behalf. Securities are **NOT** to be held in investment firm/broker dealer accounts. All security transactions are to be conducted on a "delivery versus payment basis" (DVP). Confirmation receipts on all investments are to be reviewed immediately for conformity with City transaction documentation.
- B. Collateralization will be required on two types of investments: non-negotiable certificates of deposit and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, a minimum collateralization level is required.

X. INVESTMENT INSTRUMENTS:

- A. The City strives to maintain the level of investment of all idle funds as near 100% as possible. The investment of City funds shall be made in accordance with Sections 53600 et seq. of the California Government Code and in accordance with this Investment Policy. Permitted investments for the City shall include the following security types and related credit quality, maturity, and diversification constraints.

1. **Municipal Bonds:** Bonds issued by the City, the State of California, any other of the 49 states in addition to California, and any local agency within the state of California. This authorization includes the ability to invest in obligations payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or any local agency in the state of California or by a department, board, agency, or authority of a state or any local agency in the state of California.

Credit Quality: Securities in this category shall have a minimum credit rating of A (or its equivalent) by at least one nationally recognized statistical rating organization at the time of purchase.

Maximum Maturity: Five years at the time of purchase.

Diversification: No more than 5% of the portfolio may be invested in any single issuer. No more than 30% of the portfolio may be invested in this category.

2. **U.S. Treasury Obligations:** United States Treasury bills, notes, bonds, and certificates of indebtedness or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

Credit Quality: No minimum credit rating required for securities in this category.

Maximum Maturity: Five years at the time of purchase.

Diversification: There are no dollar or percentage limits on securities in this category.

3. **Federal Agency and Government Sponsored Enterprise Obligations:** 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.

Credit Quality: No minimum credit rating required for securities in this category.

Maximum Maturity: Five years at the time of purchase.

4. **Diversification:** There are no dollar or percentage limits individual issuers in this category. **Commercial Paper:** Commercial paper of "prime" quality and issued by a corporation organized and operating in the United States with total assets of at least \$500 million.

Credit Quality: Securities in this category must be rated "A-1" (or the equivalent) or higher by at least one nationally recognized statistical rating organization at the time of purchase. In addition, debt other than commercial paper (if any) issued by corporations in this category must be rated at least "A" (or the equivalent) or better by at least one nationally recognized statistical rating organization.

Maximum Maturity: 270 days at the time of purchase as measured by the settlement date.

Diversification: No more than 5% of the City's portfolio may be invested in any single issuer of commercial paper. For purposes of this issuer limitation, holdings of commercial paper and medium-term notes of a single issuer shall be limited to 10% of total portfolio assets. No more than 25% of the total portfolio may be invested cumulatively in commercial paper or asset-backed commercial paper as defined in Section 5, below. No more than 10% of the outstanding commercial paper of any single issuer may be purchased.

5. **Asset-Backed Commercial Paper:** Asset-Backed Commercial paper of "prime" quality and issued by an entity organized within the United States as a special purpose corporation, trust, or limited liability company.

Credit Quality: Securities in this category must be rated “A-1” (or the equivalent) or higher by at least one nationally recognized statistical rating organization at the time of purchase. In addition, the issuing entity must have programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.

Maximum Maturity: 270 days at the time of purchase.

Diversification: No more than 5% of the City’s portfolio may be invested in any single issuer of commercial paper. For purposes of this issuer limitation, holdings of commercial paper and medium-term notes of a single issuer shall be limited to 10% of total portfolio assets. No more than 25% of the total portfolio may be invested cumulatively in asset-backed commercial paper or commercial paper as defined in Section 4 above. No more than 10% of the outstanding commercial paper of any single issuer may be purchased.

6. **Federally Insured Time Deposits:** Non-negotiable certificates of deposit in state or federally chartered banks, savings and loans, or credit unions.

Credit Quality: Securities in this category shall be limited to the maximum amount covered by federal deposit insurance.

Maximum Maturity: Five years at the time of purchase.

Diversification: No more than 5% of the portfolio may be invested in any single issuer of non-negotiable or negotiable certificates of deposit. No more than 15% of the portfolio may be invested in any combination of non-negotiable certificates of deposit as set forth in subsections 6, 7, and 8 hereto. No more than 30% of the portfolio may be invested in any combination of non-negotiable or negotiable certificates of deposit.

7. **Collateralized Time Deposits:** Non-negotiable certificates of deposit in state or federally chartered banks, savings and loans, or credit unions in excess of federal deposit insurance limits which are fully collateralized in accordance with state law.

Credit Quality: Securities in this category exceeding federal deposit insurance limits shall be collateralized in accordance with state law and be issued by institutions which have long-term debt obligations rated “A” (or the equivalent) or better and short-term debt obligations, if any, rated “A1” (or the equivalent) or better by at least two nationally recognized statistical rating agencies at the time of purchase.

Maximum Maturity: Five years at the time of purchase.

Diversification: No more than 5% of the portfolio may be invested in any single issuer of non-negotiable or negotiable certificates of deposit. No more than 15% of the portfolio may be invested in any combination of non-negotiable certificates of deposit as set forth in subsections 6, 7, and 8 hereto. No more than 30% of the

portfolio may be invested in any combination of non-negotiable or negotiable certificates of deposit.

8. **Certificate of Deposit Placement Services:** Non-negotiable certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that that uses a private sector entity to assist in the placement of deposits (e.g., CDARS).

Credit Quality: The full amount of each deposit and the interest that may accrue on each such deposit shall at all times be insured by federal deposit insurance.

Maximum Maturity: Five years at the time of purchase.

Diversification: No more than 5% of the portfolio may be invested in any single issuer of non-negotiable or negotiable certificates of deposit. No more than 15% of the portfolio may be invested in any combination of non-negotiable certificates of deposit as set forth in subsections 7, 8, and 9 hereto. No more than 30% of the portfolio may be invested in any combination of non-negotiable or negotiable certificates of deposit.

9. **Negotiable Certificates of Deposit:** Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or a federally licensed or state-licensed branch of a foreign bank.

Credit Quality: Securities in this category exceeding federal deposit insurance limits shall be issued by institutions which have long-term debt obligations rated "A" (or the equivalent) or better and short-term debt obligations, if any, rated "A-1" (or the equivalent) or better by at least two nationally recognized statistical rating agencies at the time of purchase.

Maximum Maturity: Five years at the time of purchase.

Diversification: No more than 5% of the portfolio may be invested in any single issuer of non-negotiable or negotiable certificates of deposit. No more than 30% of the portfolio may be invested in any combination of non-negotiable or negotiable certificates of deposit.

10. **Repurchase Agreements:** Repurchase agreements with specific terms and conditions may be transacted with banks and brokers. Such investments must be subject to a "Master Repurchase Agreement" substantially in the form developed by the Securities Industry and Financial Markets Association ("SIFMA").

Credit Quality: Repurchase agreements shall be collateralized with U.S. Treasury securities (as authorized herein) maintained at a value of at least 102% of the market value of the repurchase agreement. Securities used as collateral for repurchase agreements shall be delivered to the City's custodian bank.

Maximum Maturity: 1 year at the time of entry.

Diversification: There are no dollar or percentage limits on securities in this category.

11. **Medium-Term Corporate Notes:** Medium-term corporate notes shall mean all corporate and depository institution debt securities issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

Credit Quality: Securities in this category shall be rated in the “A” category or better by at least two nationally recognized statistical rating organizations at the time of purchase.

Maximum Maturity: Five years at the time of purchase as measured by the settlement date provided that the settlement date is no more than 45 days after the purchase or issue date.

Diversification: No more than 5% of the portfolio may be invested in any single issuer. No more than 10% of the total portfolio may be invested in the commercial paper and medium-term notes of a single issuer. No more than 30% of the portfolio may be invested in this category.

12. **Money Market Mutual Funds:** Money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15U.S.C. Sec. 80a-1 et seq.) meeting the credit quality requirements set forth below or retaining an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

Credit Quality: Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

Maximum Maturity: No maturity restrictions apply.

Diversification: No more than 20% of the portfolio may be invested in this category.

13. **Mortgage Pass-Through and Asset-Backed Securities:** Mortgage pass-through securities, collateralized mortgage obligations, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bonds meeting the requirements set forth below.

Credit Quality: Securities eligible for investment under this subdivision shall be rated in a rating category of “AA” or its equivalent or better by an NRSRO at the time of purchase and have a maximum remaining maturity of five years or less.

Maximum Maturity: Five years at the time of purchase.

14. **Diversification:** With the exception of obligations issued and/or guaranteed by Federal Agencies and Government Sponsored Enterprises as specified in subsection 3 hereto, no more than 5% of the portfolio may be invested in any single issuer. No more than 10% of the total portfolio may be invested in this category. Note that the 10% limitation established in this section does not apply to Asset-Backed Commercial Paper which is separately authorized by Section X.A.5, above. **State of California Local Agency Investment Fund:** The State of California Local Agency Investment Fund (“LAIF”) managed by the State of California Treasurer’s Office.

Credit Quality: No credit rating requirements exist for LAIF. In addition, should LAIF invest in securities or instruments prohibited or not specifically authorized by the City’s Investment policy, the City is not prohibited from investing in LAIF provided sufficient information is available to allow the City to understand the risks associated with investing in LAIF.

Maximum Maturity: No maturity restrictions apply.

Diversification: The City may invest up to the maximum amount permitted by California state law.

15. **Joint Powers Authority Pools:** Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in securities authorized by California Government Code Section 53601 subdivisions (a) to (r), inclusive, and that has retained an investment adviser that is registered or exempt from registration with the Securities and Exchange Commission having not less than five years of experience investing in the securities and obligations authorized by California Government Code Section 53601 and having at least five hundred million dollars (\$500,000,000) under management.

Credit Quality: There are no credit rating requirements for Joint Powers Authority Pools.

Maximum Maturity: No maturity restrictions apply.

Diversification: The City may invest up to the maximum amount permitted by California law.

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

Credit Quality: Securities in this category shall be rated in the “AA” category or better by at least one nationally recognized statistical rating organizations at the time of purchase.

Maximum Maturity: Five years at the time of purchase.

Diversification: No more than 10% of the portfolio may be invested in any single issuer. No more than 15% of the portfolio may be invested in this category.

- B. The credit quality requirements for investments authorized by this Investment Policy shall apply at the time the security is purchased. Should the credit rating of a security owned by the City be downgraded to a level below that required for purchase by this Investment Policy, the City will review the credit situation and determine if such securities should be sold or retained in the portfolio based upon its remaining term to maturity, the credit outlook for the issuer, and other relevant facts and circumstances. If the decision is made to retain a downgraded security, it will be closely monitored by the City and reported on quarterly to the Investment Committee. The diversification requirements set forth in this Investment Policy relating to the maximum allowable percentage for a particular issuer or investment type shall apply at the time of purchase. Should an investment percentage-of-portfolio limitation be exceeded due to an incident such as fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses. When no loss is indicated, the City Manager or their designee shall consider reconstructing the portfolio basing the decision in part on the expected length of time the portfolio will be imbalanced.

XI. INVESTMENT POOLS

Governmental sponsored pools and/or mutual funds should be carefully reviewed prior to investing and should be monitored on an ongoing basis. Requisite information relating to the pool to be kept by on file by the City includes the following:

1. Statement of investment policy and objectives
2. List of allowable investments
3. Disclosure for settlement and safeguarding of investments
4. Description of securities pricing and accounting compliance
5. Explanation of interest calculations, distributions, disclosures
6. Deposit and withdrawal restrictions
7. Disclosure of audit findings and reports

XII. RESTRICTIONS ON PURCHASE OF SECURITIES:

- A. The California Government Code sections 53600 et seq. governs allowable investments into which a local government agency can enter. These Government Code sections also stipulate as to the portfolio percentage limits and investment quality standards for some but not all permitted investments. The Government Code sections provide a starting point for establishing the City quality standards, percentage limits and maturity levels. Should the Government Code become more restrictive than this policy, the Government Code restrictions shall prevail.
- B. Government and agency paper are the highest quality investments available in terms of safety and liquidity.

- C. The City operates its investment pool with many state and self-imposed constraints. The City shall not invest any funds in stocks, or deal in futures, options, inverse floaters, range notes, mortgage-derived interest-only strips, or reverse repurchase agreements. In addition, the purchase of any security that could result in zero interest accrual if held to maturity is also prohibited except for the purchase securities issued or backed by the United States government in the event of, and for the duration of, a period of negative market interest rates.
- D. Longer term investments (more than one year) are limited by state law, limited to maturities of five years or less, unless the city council grants such authority at least three months prior to the investment.
- E. The City Council has designated that the General Fund's spendable and unrestricted reserves be no less than 20% of the annual expenditures of the General Fund. The Council expressly authorizes the "20% General Fund Reserve" to be invested in any investment otherwise allowed under this Policy with maturities not to exceed 10 years, provided such investment complies with the law.

The City attempts to obtain the highest return possible when selecting investments for its portfolio, provided that criteria for safety and liquidity are met. Ordinarily, through a positive yield curve, (i.e., longer term investment rates are higher than those of shorter maturities), the City attempts to time its maturities to meet anticipated cash needs in such a way that new investment money can be placed in maturities that carry a higher expected rate of return and minimize the drag on income that often results by maintaining excess balances unnecessarily short-term.

XIII. QUALIFIED DEALERS:

- A. The City Manager or their designee will maintain a list of approved financial institutions authorized to provide investment services to the public agency in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). A determination should be made to ensure that all approved broker/dealer firms, and individuals covering the public agency, are reputable and trustworthy. In addition, the broker/dealer firms should have the ability to meet all of their financial obligations in dealing with the Public Agency. The firms, and individuals covering the agency, should be knowledgeable and experienced in Public Agency investing and the investment products involved. No public deposit shall be made except in a qualified public depository as established by the established state laws.
- B. All financial institutions and broker/dealers who desire to conduct investment transactions with the City must supply the City Manager or their designee with the following: audited financial statements, proof of NASO certification, trading resolution,

proof of State of California registration, completed broker/dealer questionnaire, certification of having read the City's investment policy and depository contracts.

- C. The City Manager or their designee will obtain financial information from qualified institutions to determine if the institution markets in securities appropriate to the City's needs, can assign qualified sales representatives, and can provide written agreement to abide by the conditions set forth in the City of Hemet Investment Policy.
- D. The City Manager or their designee will maintain a list of financial institutions and broker/dealers authorized to provide investment services in the State of California. An eligible designation does not guarantee that the City will do business with the firm or institution.
- E. The following criteria will be used in determining investment providers:
 - 1. Broker/dealers. The purchase by the City of an investment other than those purchased directly from the issuer shall be purchased from a broker/dealer firm designated as a "Primary Government Dealer" by the Federal Reserve Bank of New York or regional dealer that qualifies under SEC Rule 15C3-1.
 - 2. Banks. The City shall purchase securities from banks which meet all of the following criteria:
 - Nationally or State chartered banks
 - a. Registered as investment securities dealers with the Securities and Exchange Commission
 - b. Independently rated "A" or higher by two nationally recognized statistical ranking organizations.
 - 3. Investment Bankers, Underwriters and Financial Advisors. The purchase by the City of any investments from these providers in the course of completing a bond transaction must be expressly authorized by the City Council after such provider discloses their commission, spread or fee in approximate dollar amount. Otherwise the acquisition of such investments must be procured from the broker/dealers customarily used by the City.
 - 4. The Federal Reserve Bank. Direct purchases of Treasury bills, notes and bonds from the U.S. Federal Reserve Bank branches are allowed and are exempt from quality requirements.
 - 5. It is the policy of the City to encourage competitive bidding from at least three broker/dealers for investment transactions that are not classified as "new issue" securities whenever possible and practical. Such competitive bidding can be executed through a competitive bidding or through the use of a nationally recognized trading platform. In such circumstances where competitive price comparisons are not available, best efforts will be made to document quotations for comparable or alternative securities. Competitive solicitations wherein only one bid or offer is received shall satisfy the competitive bidding preference of this Investment Policy.

- F. The City Manager or their designee will conduct an annual review of the financial condition and registrations of brokers/dealers on the City's approved list.
- G. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which or with which the City invests.
- H. Certificates of deposit will not be placed with an institution once it has received a Cease and Desist Order from any bank regulatory agency.
- I. Selection of broker/dealers utilized by third-party investment advisors retained by the City will be at the sole discretion of the investment adviser in accordance with the firms' best execution policy.

XIV. ETHICS AND CONFLICT OF INTEREST:

- A. All officials, staff members and consultants, involved in the investment functions will refrain from personal business activity that could conflict with execution of the investment function or which may impair their ability to make impartial investment decisions. Officials, staff members, and consultants, will disclose to the City Manager any financial interests with a financial institution, provider, dealer or broker that conducts business with the City.
- B. Officials, staff members and consultants will further disclose any personal financial positions that could be related to the City's cash investment portfolio.
- C. All bond issue participants, including but not limited to, underwriters, bond counsel, financial advisors, brokers, and dealers will disclose any fee sharing arrangements or fee splitting to the City Manager prior to the execution of any transactions. The providers must disclose the percentage share and approximate dollar amount share to the City prior to the execution of any transactions.

XV. PERFORMANCE STANDARDS AND EVALUATION

Consistent with the City's circumstances and risk tolerances, the investment performance objective for the managed portfolio shall be to earn a total rate of return over market cycles that is approximately equal to the return on the City's chosen benchmark index.

City of Hemet Investment Policy Glossary of Terms

This Glossary of Terms is provided for general reference purposes only and does not constitute or reflect an exhaustive or exclusive list of terms and definitions that may be applicable to the City of Beaumont's Investment Policy Statement. The definitions included herein do not modify or otherwise amend or supersede any of the terms of this Investment Policy Statement or applicable State or Federal law.

ACCRUED INTEREST: The amount of interest that is earned but unpaid since the last interest payment date.

ADJUSTABLE RATE NOTE: (See Floating Rate Note)

AGENCY SECURITIES: (See U.S. Government Agency Securities)

AMORTIZATION: The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

ASSET-BACKED COMMERCIAL PAPER: A short-term investment vehicle with a maturity date that is typically between 90 and 270 days. A bank or other financial institution typically issues the security itself. The notes are backed by the company's physical assets such as trade receivables. Companies will use an asset-backed commercial paper to fund short-term financing needs.

AVERAGE LIFE: The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

ASKED PRICE: The price at which securities are offered from a seller.

ASSET BACKED SECURITIES (ABS): (See Receivable-Backed Securities)

BANKERS' ACCEPTANCE (BA): Negotiable money market instruments issued primarily to finance international trade. These are time drafts in which a bank "accepts" as its financial responsibility to pay the principal at maturity even if the importer does not. In essence, these are bank obligations collateralized by goods being shipped between an exporter and an importer.

BASIS POINT: When a yield is expressed as percentage terms (e.g., 2.25%), the digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

BENCHMARKS: Indexes created to include multiple securities representing some aspect of the total market. Benchmarks are often used as a standard against which the performance of a security, mutual fund, or investment manager may be measured.

BID PRICE: The price at which a buyer offers to buy a security.

BOND INDENTURE: The contract associated with a bond. The terms of a bond indenture include a description of the bond features, restrictions placed on the issuer, and the actions that will be triggered if the issuer fails to make timely payments.

BOND PROCEEDS: The proceeds from the sale of bonds, notes, and other obligations issued by an entity, and reserves and funds maintained by an entity for debt service purposes.

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most money market securities are “delivered” to an investor’s custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). The owners of these securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment, plus accrued interest and amortization of any premium or discount.

BROKER: A broker brings buyers and sellers together and is compensated for his/her service.

CALLABLE BONDS: Bonds that may be redeemed by the issuing company prior to the maturity date.

CALL PRICE: The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond’s original issue price to compensate the holder for loss of income and ownership.

CALL RISK: The risk to a bondholder that a bond may be redeemed prior to maturity.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a capital asset.

CERTIFICATE OF DEPOSIT (CD or NCD): A deposit of funds at a bank for a specified period of time that earns interest at a specified rate. Commonly known as “CDs” or “negotiable CDs.”

CERTIFICATE OF DEPOSIT PLACEMENT SERVICES: The purpose of the Certificate of Deposit Account Registry Service (CDARS) is to help people who invest in certificate of deposits (CDs) keep their money insured while also staying below the Federal Deposit Insurance Corporation (FDIC) insurance limit of \$250,000 per depositor per bank.

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public moneys.

COLLATERALIZED TIME DEPOSIT: A Time Deposit supported by collateral.

COLLATERALIZED MORTGAGE OBLIGATION (CMO): A type of mortgage-backed security that contains a pool of mortgages bundled together and sold as an investment. Organized by maturity and level of risk, CMOs receive cash flows as borrowers repay the mortgages that act as collateral on these securities. In

turn, CMOs distribute principal and interest payments to their investors based on predetermined rules and agreements.

COMMERCIAL PAPER (CP): Short-term unsecured promissory notes issued by corporations for maturities of 270 days or less.

CONVEXITY: A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

CREDIT OUTLOOK: (See Rating Outlook)

CREDIT QUALITY: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized statistical rating organizations.

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CREDIT WATCH: Indicates that a company's credit is under review and credit ratings are subject to change. Positive (+) credit watch indicates that the credit rating is under review for possible upgrade. Negative credit watch (-) indicates that the credit rating is under review for possible downgrade. Evolving/Neutral credit watch indicates that credit rating is under review with direction uncertain.

COUPON: The rate at which a bond pays interest.

CURRENT YIELD: The annual income from an investment divided by the current market value. Since the mathematical 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 own account.

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

DERIVATIVE: A security whose interest rate of principal amount may vary and are determined by a market index or a combination of market indexes.

DISCOUNT: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers' acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity.

without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION: An investment principle designed to spread the risk in a portfolio by dividing investments among different sectors, industries and companies.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the “average maturity” of an investment portfolio using each investment’s maturity weighted by the size of that investment.

DOWNGRADE: A negative change in the credit rating of a security.

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. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

EMBEDDED CALL OPTION: A feature of a financial instrument that lets issuers take specified actions at some future time. Embedded call options are provisions included in some fixed-income securities that allow the issuer to call back (redeem) the issue at a date earlier than the legal final maturity date.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and public confidence in the nation’s financial system. The FDIC insures deposits; examines and supervises financial institutions for safety, soundness, and consumer protection; makes large and complex financial institutions resolvable; and manages receiverships.

FEDERAL FUNDS RATE: Interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. A target rate is set by the FOMC.

FEDERAL OPEN MARKET COMMITTEE (FOMC): This committee sets Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: A U.S. centralized banking system, which has supervisory powers over the 12 Federal Reserve banks and member banks.

FEDERALLY INSURED TIME DEPOSIT: A Time Deposit insured by the FDIC.

FITCH, INC: (see Nationally Recognized Statistical Rating Organization)

FIXED-INCOME SECURITIES: Securities that return a fixed income over a specified period.

FLOATING RATE NOTE: A debt security whose interest rate is reset periodically (monthly, quarterly, annually) and is based on a market index (e.g. Treasury bills, LIBOR, etc.).

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP): GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information. GAAP aims to improve the clarity, consistency, and comparability of the communication of financial information.

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

INTEREST RATE RISK: The risk of potential investment losses that result from a change in interest rates.

INTERNAL CONTROLS: An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

INVERSE FLOATER: A bond or other type of debt whose coupon rate has an inverse relationship to a benchmark rate. An inverse floater adjusts its coupon payment as the interest rate changes.

INVESTMENT COMPANY ACT OF 1940: Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

INVESTMENT MANAGERS: An investment manager is a person or organization that makes investment decisions about portfolios of securities on behalf of clients under the investment objectives and parameters the client has defined.

JOINT POWERS AUTHORITY (JPA): An entity permitted under the laws of some U.S. states, whereby two or more public authorities (e.g. local governments, or utility or transport districts), not necessarily located in the same state, may jointly exercise any power common to all of them.

LETTER OF CREDIT: A letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make a payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase.

LIQUIDITY: The speed and ease with which an investment can be converted to cash.

LOCAL AGENCY: County, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

MAKE-WHOLE CALL PROVISION: A type of call provision on a bond allowing the issuer to pay off remaining debt early. The issuer typically has to make a lump-sum payment to the investor. The payment is derived from a formula based on the net present value (NPV) of previously scheduled coupon payments and the principal that the investor would have received.

MARGIN: The collateral that an investor is required to deposit with their broker or an exchange to cover the credit risk the holder poses for the broker or the exchange when trading with borrowed or leveraged funds.

MARK-TO-MARKET: The market valuation for every security in a portfolio used in determining its total market value and the Net Asset (NAV) in the case of mutual funds or other pooled investment products.

MARKET RISK: The risk that changes in overall market conditions or interest rate may adversely affect current market prices.

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

MASTER REPURCHASE AGREEMENT: A written contract between the parties of a repurchase agreement establishing each party's rights in all current and future transactions until termination of the contract by either party.

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

MEDIUM-TERM NOTES (MTN): Debt securities issued by a corporation or depository institution with a maturity ranging from nine months to five years. The term "medium-term note" refers to the time it takes for an obligation to mature and includes other corporate debt securities originally issued for maturities longer than five years, but which have now fallen within the five- year maturity range. MTNs issued by banks are also called "bank notes."

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

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invest in a variety of short-term money market instruments.

MOODY'S INVESTORS SERVICE, INC: (See Nationally Recognized Rating Services)

MORTGAGE DERIVED INTEREST ONLY STRIP: A security based solely on the interest payments from a pool of mortgages. Once the principal on the mortgages or bonds has been repaid, interest payments stop, and the value of the IO falls to zero

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

MUNICIPAL BONDS: Bonds, notes and other securities issued by a state, municipality or county.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO): Firms that review the creditworthiness of the issuers of debt securities and express their opinion in the form of letter ratings

(e.g. AAA, AA, A, BBB, etc.). The primary rating agencies are the following: Standard & Poor's Corporation; Moody's Investor Services, Inc.; and Fitch, Inc.

NEGOTIABLE CD: (See Certificates of Deposit)

NET ASSET VALUE (NAV): A per-share valuation of a mutual fund based on total assets minus total liabilities.

NEW ISSUE SECURITIES: A new issue refers to a bond offering that is made for the first time.

NON-CALLABLE: Bond that cannot be called at the option of the issuer.

OFFER PRICE: The price asked by a seller of securities.

PAR or PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in \$1,000 increments per bond.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a physical certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

PORTFOLIO: A group of securities held by an individual or institutional investor.

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

PRICE RISK: The risk that the price of a bond sold prior to maturity will be less than the price at which the bond was originally purchased.

PRIMARY DEALER: Banks and securities brokerages authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its execution of Federal Open Market Operations.

PRIME RATE: The base rate that banks use in pricing commercial loans to their best and most creditworthy customers.

PRINCIPAL: The face value or par value of an investment.

PRINCIPAL PAYDOWNS: A reduction in the principal amount owed on a loan or other debt often associated with mortgage-backed or other paythrough security structures subject to prepayments.

PROSPECTUS: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information of the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

RANGE NOTE: A range note or range accrual is a structured product based on an underlying index whose returns are maximized if that index stays within the investor's defined range. Commonly referred to as range accrual note, it is a type of financial derivative.

RATING OUTLOOK: The potential direction of the credit rating assigned by a NRSRO for a specific company.

REINVESTMENT RISK: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

RECEIVABLE-BACKED SECURITIES: Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

RECEIVABLE PASS-THROUGH CERTIFICATE: A debt obligation that is backed by a portfolio of receivables, normally issued by a bank or financial institution. The interest and principal of the obligation is paid out of the cash flow generated by the receivable's portfolio.

REFUNDED BOND: A bond secured by an escrow fund that is sufficient to pay off the entire issue of bonds at the next call date (pre-funded) or maturity (escrowed to maturity).

REGISTERED STATE WARRANT: A short-term obligation of a state governmental body issued in anticipation of revenue.

REPURCHASE AGREEMENT (REPO): The purchase of securities, on a temporary basis, with the seller's simultaneous agreement to repurchase the securities back at a later date at a specified price that includes interest for the buyer's holding period.

RULE 2a-7 OF THE INVESTMENT COMPANY ACT: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 60-day average maturity on investments, to help maintain a constant net asset value of one dollar (\$1.00).

RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

SAFEKEEPING: Storage and protection of a customer's financial assets, valuables, or documents, provided by an institution serving as an Agent or Custodian and, where control is delegated by the customer.

SECURITIES & EXCHANGE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SETTLEMENT DATE: The date when a trade is final, and the buyer must make payment to the seller while the seller delivers the assets to the buyer.

SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION (SIFMA): A not-for-profit trade association that represents securities brokerage firms, investment banking institutions, and other investment firms.

SINKING FUND: Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

STANDARD & POOR' S CORPORATION: (See Nationally Recognized Rating Services)

STATE OF CALIFORNIA LOCAL AGENCY INVESTMENT FUND (LAIF): A voluntary program created by statute, began in 1977 as an investment alternative for California's local governments and special districts. This program offers local agencies the opportunity to participate in a major portfolio, which invests hundreds of millions of dollars, using the investment expertise of the State Treasurer's Office professional investment staff at no additional cost to the taxpayer.

STRUCTURED INVESTMENT VEHICLE (SIV): A pool of investment assets that attempts to profit from credit spreads between short-term debt and long-term structured finance products such as asset-backed securities (ABS). Funding for SIVs comes from the issuance of commercial paper that is continuously renewed or rolled over; the proceeds are then invested in longer maturity assets that have less liquidity but pay higher yields.

SUPRANATIONAL: An entity that is formed by two or more central governments with the purpose of promoting economic development for the member countries. Examples include the International Bank for Reconstruction and Development, International Finance Corporation, and the Inter-American Development Bank.

SURETY BOND: A promise to be liable for the debt, default, or failure of another. It is a three-party contract by which one party (the surety) guarantees the performance or obligations of a second party (the principal) to a third party (the obligee).

THIRD-PARTY CUSTODIAL AGREEMENT: (See Custodian)

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period.

$$\text{Total Return } \$ = (\text{Ending value} - \text{Beginning value}) + \text{Coupons and Dividends Received}$$

$$\text{Total Return } \% = \text{Total Return } \$ / \text{Beginning Value} \times 100$$

TRADE DATE: The date and time corresponding to an investor's commitment to buy or sell a security.

U.S. GOVERNMENT AGENCY SECURITIES: Debt securities issued by U.S. Government sponsored enterprises and federally related institutions. These government agencies include: Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal National

Mortgage Association (FNMA or Fannie Mae), Federal Farm Credit Banks (FFCB), Resolution Trust Corporation (RTC), and Tennessee Valley Authority (TVA).

U.S. TREASURY SECURITIES: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

Treasury Bills: Non-interest-bearing discount securities with maturities under one year issued by the U.S Treasury.

Treasury Notes: Interest-bearing obligations of the U.S. Treasury with maturities ranging from two to ten years from date of issue.

Treasury Bonds: Interest-bearing obligations issued by the U.S. Treasury with maturities that range from ten to thirty years from date of issue.

UNIFORM NET CAPITAL RULE: SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

VARIABLE RATE NOTE: (See Floating Rate Note)

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

WEIGHTED AVERAGE MATURITY (WAM): The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 60 days and no one security may have a maturity that exceeds 397 days.

WHEN ISSUED (WI): A conditional transaction in which an authorized new security has not been issued. All “when issued” transactions are settled when the actual security is issued.

YIELD: The annual rate of return on a debt investment computed as though held to maturity expressed as a percentage.

YIELD TO CALL (YTC): The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

YIELD TO MATURITY (YTM): The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.

ZERO-COUPON BONDS/U.S. TREASURY STRIPS: A bond which represents ownership of a single coupon or principal payment due on a U.S. Treasury bond. Zeros or strips mature at face value at a specified date in the future and make no payments until that date. They always sell at a discount from face value.