Dated: June 13, 2017

CITY OF ORANGE
STATEMENT OF INVESTMENT POLICY
Fiscal Year 2017-18

1.0 INVESTMENT POLICY OVERVIEW

1.1 POLICY

It is the policy of the City of Orange ("City") to invest public funds in a manner which will provide foremost for the safety of principal while meeting the short- and long-term cash flow demands of the City and conforming to all statutes governing the investment of City funds.

Annually, in accordance with California Government Code ("CGC") Section 53646, the Treasurer will render to the City Council a Statement of Investment Policy for consideration and approval at a public meeting. Any investment currently held at that time that does not meet the guidelines of this policy, as changed from time to time by the City Council, shall be exempt from the requirements of this policy. However, at the investment's maturity or liquidation, such funds shall be reinvested only as provided by this policy.

1.2 PURPOSE

This Statement of Investment Policy ("SIP") is set forth by the City for the following purposes:

a) To establish a clear understanding for the City Council, Investment Committees, City management, responsible employees, citizens and third parties, of the objectives, policies and guidelines for the investment of the City's idle and surplus funds.

b) To offer guidance to investment staff, brokers and any external investment advisors on the investment of City funds.

1.3 INVESTMENT OBJECTIVES

Within the overriding requirement of compliance with all Federal, State and local laws governing the investment of moneys under the control of the Treasurer, and as specified in the CGC Section 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

a) **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.

b) **Liquidity**: The investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

c) **Return on Investments**: The investment portfolio shall be designed and managed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment objectives, authorized investments and the cash flow needs of the City. The Treasurer's monthly reports shall include benchmark reporting to define *"a market rate of return"*; which shall be one of the indices published in a financial journal of wide circulation that are most comparable to the Treasurer's portfolio. The benchmark shall be used solely as a reference tool. The Treasurer shall not add additional risk to the portfolio in order to attain or exceed the benchmark.

1.4 PRUDENCE

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. The standard of prudence to be used by investment officials shall be the "prudent investor" standard (CGC Section 53600.3) and shall be applied in the context of managing an overall portfolio. The Treasurer and other investment employees, acting within the intent and scope of the SIP and other written procedures, and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in the immediately following Treasurer's Report and appropriate action is taken to control adverse developments. When a deviation poses a significant risk to the City's financial position, the City Council shall be notified immediately.

1.5 ETHICS

Elected officials, City officers and employees and any other individuals involved in the investment operations are prohibited from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions, or which could give the appearance thereof. Furthermore, these same individuals are prohibited from undertaking personal investment transactions with any individual with whom business is conducted on behalf of the City.

2.0 OPERATIONS AND PROCEDURES

2.1 SCOPE

a) This SIP applies to all financial assets of the City. These funds are accounted for in the Comprehensive Annual Financial Report (CAFR) and include: General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, and Internal Service Funds.

b) This SIP specifically exempts and does not apply to the following financial assets and investment activities of the City:

(1) The City's Deferred Compensation Plan is excluded because it is managed by a third party administrator and invested by individual plan participants.

(2) Proceeds of City or other debt issues in possession of a trustee or fiscal agent are not considered to be part of the financial assets covered by this policy. These bond proceeds shall be invested in accordance with the requirements and restrictions outlined in the bond documents.

2.2 DELEGATION OF AUTHORITY

a) The City Council's authority to manage the investment program is derived from CGC Sections 53600 *et seq.*

b) In accordance with the City of Orange Municipal Code Chapter 2.26, management responsibility for the investment program is hereby delegated to the Treasurer, who shall establish written procedures for the operation of the investment program consistent with this SIP. Under the provision of CGC Section 53600.3, the Treasurer is a trustee and a fiduciary subject to the prudent investor standard.

c) The Treasurer may delegate all, or a portion of, his/her investment authority to a Deputy City Treasurer. Prior to the delegation of the investment authority to a Deputy City Treasurer, the City Treasurer shall notify the City Council and request confirmation of the delegation. Delegation of investment authority will not remove or abridge the Treasurer's investment responsibility.

d) The City Council may engage the services of one or more external investment managers to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives and in accordance with this SIP. Such external managers may provide advice and effectuate trades upon specific authorization for each transaction. Such managers must be registered under the Investment Advisors Act of 1940 and must have not less than five years' experience investing in the securities and obligations authorized by the CGC Section 53601, and with assets under management in excess of five hundred million dollars ($500,000,000). The Treasurer shall review Form ADV of any investment advisor prior to engagement by the City Council. This Section does not preclude the Treasurer from retaining portfolio consultants within existing authority.

2.3 INVESTMENT OVERSIGHT COMMITTEE

a) Chapter 2.50 of the Orange Municipal Code establishes an Investment Oversight Committee (IOC). The terms and provisions of said Chapter 2.50 are incorporated into this SIP by reference as though fully set forth herein. The IOC consists of the Treasurer, the City Manager or designee, and the Director of Finance. The Treasurer is required to act as Chair of the IOC, with the City Manager as Vice Chair. The IOC is required to act by majority vote.

b) The IOC shall, at least annually and more often if directed by the City Council or agreed by a majority of the IOC, review the City Council's adopted SIP and report to the City Council its recommendations for any changes, additions or deletions to the SIP.

c) The IOC shall monitor the implementation of the City Council's adopted SIP and annually submit a compliance report to the City Council.

d) The IOC shall review reports to the City Council from the Investment Advisory Committee and prepare responses as required.

e) The IOC shall meet and report quarterly to the City Council summarizing the IOC meetings and the recommendations of the Investment Advisory Committee. Such report shall contain an unedited copy of the Investment Advisory Committee's recommendations.

2.4 AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

a) Institutions eligible to transact investment business with the City shall include only the following:
   (1) Primary government dealers as designated by the Federal Reserve Bank;
   (2) Nationally or state-chartered banks;
   (3) The Federal Reserve Bank; and
   (4) Direct issuers of securities eligible for purchase by the City.

b) Selection of financial institutions and broker/dealers authorized to engage in transactions with the City shall be at the sole discretion of the City Treasurer. The Treasurer will maintain a list of financial institutions authorized to provide investment services to the City.

c) The City Treasurer shall obtain information from qualified financial institutions to determine if the institution makes markets in securities appropriate for the City's needs, can assign qualified sales representatives and can provide written agreements to abide by the conditions set forth in the City of Orange SIP. Investment accounts with all financial institutions shall be standard non-discretionary accounts and may not be margin accounts.

d) All financial institutions which desire to become qualified bidders for investment transactions must supply the Treasurer with the following:
   (1) Audited financial statements for the institution's three most recent fiscal years;
   (2) At least three references from California local agencies whose portfolio size, investment objectives and risk preferences are similar to the City's;

(3) A statement certifying that the institution has reviewed the CGC Sections 53600 *et seq.* and the City's SIP, and that all securities offered to the City shall comply fully and in every instance with all provisions of the Code and with this SIP; and,

(4) Completed Broker/Dealer Questionnaire.

e) The Treasurer shall conduct an annual review of the financial condition of qualified institutions. In addition, a current financial statement is required to be on file for each qualified institution.

f) Public deposits shall be made only in qualified public depositories within the State of California as established by State law. Deposits shall be insured by the Federal Deposit Insurance Corporation (FDIC) or, to the extent the amount exceeds the insured maximum, shall be collateralized with securities in accordance with State law.

2.5 COLLATERAL REQUIREMENTS

CGC Sections 53652 and 53667 require depositories to post certain types and levels of collateral for public funds on deposit above the FDIC insurance amounts. The collateral requirements apply to bank deposits, both active (checking and savings accounts) and inactive (non-negotiable time certificates of deposit).

2.6 SAFEKEEPING AND DELIVERY

a) To protect against fraud, embezzlement, or losses caused by collapse of individual securities dealers, all securities owned by the City shall be held in safekeeping by the City's custodial bank, a third party bank trust department, acting as agent for the City under the terms of a custody agreement, and shall be evidenced by safekeeping receipts.

b) All security transactions entered into by the City shall be conducted on a standard delivery-versus-payment (DVP) basis, which ensures that securities are deposited with the third party custodian prior to the release of funds. All securities purchased or acquired shall be delivered to the City by book entry, physical delivery or by third party custodial agreement as required by CGC Section 53601. Investments in the State Pool or money market mutual funds are undeliverable, and are not subject to delivery or third party safekeeping requirements.

c) On a daily basis, investment trades shall be verified against the bank transactions and broker confirmation tickets to ensure accuracy. On a monthly basis, the custodial asset statement is reconciled with the month end portfolio holdings. On an annual basis, the external auditor confirms investment holdings.

3.0 PERMITTED INVESTMENTS AND RISK MANAGEMENT

3.1 INVESTMENTS AUTHORIZED

The City, as empowered by CGC Sections 53601 *et seq.* and 16429.1, hereby authorizes the City Treasurer to select investments from among the following:

(1) United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. (**Limits**: Maximum maturity at purchase 5 years; no other limits.)

(2) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, the Federal Home Loan Bank, the Tennessee Valley Authority, the Federal National Mortgage Association, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise. In every case, any issue purchased must be fully guaranteed as to principal and interest by the full faith and credit of the United States, or the issuing federal agency. (**Limits**: Maximum maturity at purchase 5 years; maximum concentration 75% of portfolio at time of purchase with no more than 35% of total portfolio in any single agency and excluding completely Government National Mortgage Association bonds; i.e., GNMA's.)

(3) Shares of beneficial interest issued by diversified management companies that are Money Market Mutual Funds, registered with the Securities and Exchange Commission under the Investment Company Act of 1940 investing in the securities and obligations authorized by CGC Sections 53601(b) and (e) only (i.e., U.S. Government issues only). Such Funds must either carry the highest rating of at least two of the three largest national rating agencies, or such funds must have retained an investment adviser registered with the Securities and Exchange Commission with not less than five year's experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000). (**Limits**: maximum 90 days Weighted Average Maturity; maximum concentration $15 million, or 20%, of portfolio, whichever is less.)

(4) State of California Local Agency Investment Fund (LAIF) is permitted, with the knowledge that the fund may invest in some vehicles allowed by statute but not otherwise authorized by the City Council in this SIP. The Treasurer shall obtain from the State Treasurer, no less than quarterly, reports providing sufficient detail to adequately judge the risk inherent in the LAIF portfolio, and shall inform the City Council immediately of any risks noted that may warrant reconsideration of this investment vehicle. (**Limits**: Maximum concentration 35% of total portfolio for all accounts. This maximum limit is increased to 40% of total portfolio when there is an influx of large deposits resulting from called bonds. The 40% limit is allowed

for the next 30 days after the bonds are called so that the City can purchase other investments to bring the allowable percentage back to the 35%.)

(5) Investment in new Government sponsored pools will be subject to due diligence. A thorough investigation of the pool is required prior to investing, and on a continual basis.

(6) Funds held under the terms of a Trust Indenture or other contract or debt issuance agreement may be invested according to the provisions of those indentures or agreements.

(7) Certificates of Deposit approved by the California AB 2011 are permitted. (Limits: The bill allows investment up to January 1, 2021; a maximum concentration 30% of total portfolio.)

(8) Commercial Paper of prime quality having the highest ranking or the highest letter and number rating provided by a national rating agency issued by a domestic corporation having assets in excess of $500,000,000 and having an "A" or better rating on its debt other than commercial paper as provided by a national rating agency. (Limits: Maximum maturity of 270 days or less; maximum concentration 20% of portfolio and no more than 5% of the book value of the portfolio funds to a single issuer at time of purchase.)

(9) Medium-term notes 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. (**Limits:** Maximum maturity at purchase 5 years; must be rated "AA-" or better by a nationally recognized rating agency; maximum concentration 20% of portfolio at time of purchase.)

3.2 PROHIBITED INVESTMENT VEHICLES AND PRACTICES

The City Treasurer is prohibited from the following:

a) Borrowing for investment purposes ("Leverage") is prohibited.

b) Buying or selling securities "on Margin" is prohibited.

c) Investing in any instrument, which is commonly known as a "derivative" instrument (options, futures, swaps, caps, floors, collars, U.S. Treasury zero coupon bonds, U.S. Treasury strips, interest only bonds, interest-only strips derived from mortgage pools), or any investment that may result in a zero interest accrual, even if held to maturity, is prohibited.

d) Under the provisions of CGC Sections 53601.6 and 53631.5, the City shall not invest any funds covered by this SIP in instruments known as Structured Notes (e.g. inverse floaters, leverage floaters, structured CD's, range notes, equity-linked securities). Any such investments are prohibited.

e) Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.

f) State law notwithstanding, any investments not specifically described herein under Subsections 3.1 a) through 3.1 c) are prohibited.

3.3 MITIGATING RISK IN THE PORTFOLIO

a) Credit Risk:

(1) The City will diversify its investments in accordance with the limits set forth in Subsection 3.1 of this SIP to diminish the credit risk resulting from concentrations.

(2) The City, on occasion, may sell a security prior to its maturity (recording a gain or loss) in order to improve the risk structure, liquidity and yield of the portfolio in response to market conditions.

(3) If securities owned by the City that are rated by a major national rating agency are downgraded by either Moody's, S&P or Fitch, it shall be the City's policy to review immediately the credit situation and make a determination as to whether to sell or retain such securities in the portfolio. If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be reported to the IOC and the City Council and be monitored on a continuous basis.

b) Market Risk: While the City recognizes that longer term portfolios achieve higher returns, longer term portfolios have higher volatility of total return. The City will limit market risk by limiting the concentrations, volume and duration of its longer term investments, as well as limiting them to funds which are not needed for current year cash flow purposes.

(1) Maturities selected shall provide for stability of income and liquidity, and shall not exceed 5 years from the date of purchase. The City shall structure its investment portfolio as a maturity ladder. Funds not required for purposes of meeting cash flow needs shall be invested in permitted securities so that selected percentages of the portfolio mature each year to a maximum of five years.

(2) Portfolio maturities shall be managed to avoid undue concentration in any specific maturity sector with at least 15% of the portfolio must be invested from one to 365 days and no more than 50% in this maturity sector, no

more than 50% of the portfolio be invested from 366 days to 730 days, no more than 35% of the portfolio be invested from 731 days to 1095 days, no more than 30% of the portfolio be invested from 1096 days to 1460 days, and no more than 30% of the portfolio be invested from 1461 days to 1825 days.

(3) The City may, on occasion, sell a security prior to its maturity (recording a gain or loss) in order to diminish the portfolio's exposure to market risk.

4.0 REPORTING, REVIEW AND AUDITS

4.1 MONTHLY REPORTS

a) The Treasurer shall submit three monthly investment reports to the City Council, and they shall be submitted within 45 days following the end of the quarter. The monthly reports shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par and dollar amounts invested on all securities, the current market values of each component of the portfolio, the source of the portfolio valuation, investments and moneys held by the City, and shall additionally include a description of any of the City's funds, investments, or programs, that are under the management of contracted parties, including lending programs.

b) The report shall also include performance measures as recommended by the *Association for Investment Management and Research* (AIMR). These shall include a presentation of Total Return using accrual accounting, and a Time-weighted Rate of Return using a monthly valuation and one of the AIMR approved methods of calculation. The report shall also include a presentation of Yield to Maturity.

c) The report shall also include the performance of the benchmark described in Subsection 1.3 c) of this SIP as a basis of comparison for the City's portfolio.

d) The report shall also include the following certifications:

(1) All investment actions executed since the last report have been made in full compliance with the SIP.

(2) The City will meet its expenditure obligations for the next six months is required by CGC Sections 53646(b)(2) and (3).

4.2 INTERNAL CONTROLS

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. Internal controls shall be in writing and shall address the following points: separation of transaction authority from accounting and record keeping, safekeeping of assets and written confirmation of telephone transactions for investments and wire transfers.

4.3 ANNUAL AUDIT

The Treasurer shall insure that the City's annual process of independent review by an external auditor will include an appropriate investment review to assure compliance with this policy and acceptable internal controls. The audit shall be presented to the City Council upon its completion.

4.4 SPECIAL AUDITS

The City Council may at any time order an audit of the investment portfolio and/or the Treasurer's investment practices.

5.0 INVESTMENT POLICY ADOPTION

The SIP shall be reviewed annually by the City Council for consistency with the City's overall investment objectives regarding preservation of principal, liquidity, return, relevance to current law as well as to current financial and economic trends. Any modifications necessary must be approved separately by the City Council. The SIP shall then be adopted in its entirety, as amended, within 120 days of the fiscal year end by resolution and vote of the City Council at a public meeting.

5.1 INVESTMENT POLICY CERTIFICATION

The 1999-2000 version of this investment policy was certified by the Municipal Treasurer's Association of the United States and Canada, in June 2000. Recommended changes have been incorporated. In the event of any significant changes in legislation that will require significant changes to the SIP, the City will resubmit the new policy for re-certification.

GLOSSARY

AGENCIES: Federal agency securities

ASKED: The price at which securities are offered.

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.

BENCHMARK: A segment of the securities market with characteristics similar to the subject portfolio. It is used to compare portfolio performance to the performance of the appropriate segment of the market. (e.g. 1-Year T-Bill rate)

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

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

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 repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public moneys.

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Orange. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

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

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

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

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

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

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

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

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals; e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A Federal agency that insures bank deposits, currently up to $250,000 per deposit.

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

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan banks play a role analogous to that played by the Federal Reserve Banks vis-à-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporations' 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 assumes and guarantees that all security holders will receive timely payment of principal and interest.

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

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, DC, 12 regional banks and about 5,700 commercial banks that are members of the system.

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

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

LOCAL AGENCY INVESTMENT FUND (LAIF): A pooled investment vehicle for local agencies in California sponsored by the State of California and administered by the State Treasurer.

MARKET CYCLE: A market cycle is defined as a period of time which includes a minimum of two consecutive quarters of falling interest rates followed by a minimum of two consecutive quarters of rising interest rates.

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

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

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

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

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

PORTFOLIO: Collection of securities held by an investor.

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

PRUDENT INVESTOR STANDARD: Governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to CGC Sections 53600 *et seq.* are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, a trustee shall act with care, skill, prudence, and diligence under the 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 needs of the agency. Within the limitations of the CGC Sections 53600 *et seq.* and considering individual investments as part to an overall strategy, a trustee is authorized to acquire investments as authorized by law.

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

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

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

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

TIME CERTIFICATE OF DEPOSIT: A non-negotiable certificate of deposit which cannot be sold prior to maturity.

TOTAL RATE OF RETURN: Represents growth (or decline) in the value of a portfolio, including both capital appreciation and income, as a proportion of the starting market value.

TIME-WEIGHTED RATE OF RETURN: A modified measurement of Total rate of Return which eliminates the effect of the timing of funds flows to and/or from a security or portfolio.

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

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: A non-interest bearing discount security issued by the US Treasury to finance the national debt. Most bills are issued to mature in one, two, three, five or ten years.

YIELD: The rate of annual income return on an investment, expressed as a percentage.

YIELD TO MATURITY is the calculated rate of return based upon the present value of the cash flow from each interest payment, plus the present value of the cash flow from the investment's redemption value at maturity vs. the purchase price.