Dated: April 26, 2023

CITY OF ORANGE
STATEMENT OF INVESTMENT POLICY
Fiscal Year 2023-24

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 Annual Comprehensive Financial Report 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, their 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 fewer 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) Resolution No. 11387, adopted by the City Council on April 12, 2022, established an Investment and Audit Committee (IAC). The terms and provisions of said Resolution, or as it may be later amended, are incorporated into this SIP by reference as though fully set forth herein. The IAC consists of the Treasurer and four citizen members.

b) The IAC shall, at least annually and more often if directed by the City Council or agreed by a majority of the IAC, 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 IAC shall monitor the implementation of the City Council's adopted SIP and annually submit a compliance report to the City Council.

d) The IAC shall review reports to the City Council from Treasurer or other pertinent sources and prepare responses as required.

e) The IAC 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 and non-primary government dealers;
   (2) Nationally or state-chartered banks;
   (3) The Federal Reserve Bank;
   (4) Direct issuers of securities eligible for purchase by the City;
   (5) Institutions licensed by the state as a broker-dealer; and
   (6) Institutions that are members of a federally regulated securities exchange.

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. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

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.

g) Selection of broker/dealers used by an external investment adviser retained by the City will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

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:

a) 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.)

b) 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 30% of total portfolio in any single agency, the maximum percent of agency callable securities in the portfolio will be 20%, and excluding completely Government National Mortgage Association bonds; i.e., GNMAs.)

c) 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.)

d) 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:** $75 million per account as of 1/1/2020.)

e) 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.

f) 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.

g) 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.)

h) Commercial Paper of prime quality in the highest credit category by a nationally recognized statistical ratings organization (NRSRO) issued by a domestic corporation having assets in excess of $500,000,000 and rated in the category of "A" or better by a NRSRO on its debt other than commercial paper as provided by a national rating agency. (**Limits:** Maximum maturity of 270 days or less; maximum concentration 25% of portfolio may be invested in Commercial Paper. Under a provision sunsetting on January 1, 2026, no more than 40% of the portfolio may be invested in Commercial Paper if the Agency's investment assets under management are greater than $100,000,000; no more than 5% of the book value of the portfolio funds to a single issuer at time of purchase.)

i) 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 in the category of "A" or better by a NRSRO; maximum concentration 30% of portfolio and no more than 5% of the book value of the portfolio funds to a single issuer at time of purchase.)

j) Municipal bonds include obligations issued by the State of California and any local agency within the state of California, and registered bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by a state or local agency or by a department, board, agency, or authority of a state or local agency. (**Limits:** Maximum maturity at purchase 5 years; must be rated in the category of "A" or better by a NRSRO; 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.)

k) Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations limited to mortgage-backed pass-through securities issued by a US government agency or consumer receivable pass-through certificates or bonds. (**Limits:** Maximum maturity at purchase of 5 years ; the securities are rated in a rating category of "AA" or its equivalent or higher by a NRSRO, The aggregate investment in mortgage-backed and asset-backed securities described in this section shall not exceed 20% of the portfolio; no more than 5% held in any one issuer that is not a US government agency.)

l) Supranational securities, senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank which are eligible for purchase in the United States. (**Limits:** Maximum remaining maturity of five years or less; Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or higher by a NRSRO ; maximum concentration of 30% of the portfolio with no more than 10% invested in any one issuer.)

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.

g) The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is 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 any security owned by the City is downgraded to a level below the requirements of this policy, making it ineligible for additional purchases, 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 the highest credit rating of a security is downgraded one notch below the quality required in this investment policy, it will be considered acceptable to retain such downgraded security in the portfolio and its presence in the portfolio will be reported to the City Council and monitored continuously for further information. If the highest credit rating of a security is rated two grades below the required minimum rating, it will trigger an automatic sale of such downgraded security.

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. Funds not required for purposes of meeting specific cash flow needs shall be invested in permitted securities so that securities will mature periodically across the maturity spectrum with a maximum of five years.
   (2) 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 or reinvest into a better opportunity providing more potential earning to the City's portfolio.

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 CFA Institute's *Global Investment Performance Standards* (GIPS). 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 GIPS 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

ANNUAL COMPREHENSIVE FINANCIAL REPORT: 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.

ASKED: The price at which securities are offered.

ASSET BACKED SECURITIES: Securities supported by pools of installment loans or leases or by pools of revolving lines of credit**.**

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.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO): Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

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

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.

GLOBAL INVESTMENT PERFORMANCE STANDARDS: Created by the CFA Institute, a global association for investment management professionals, and are governed by the GIPS Executive Committee. Global Investment Performance Standards (GIPS) are a set of voluntary standards used by investment managers throughout the world to ensure the full disclosure and fair representation of their investment performance. The goal of the standards is to make it possible for investors to compare one firm's performance against that of another firm.

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.

LEVERAGE: Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

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.

MARGIN: The difference between the market value of a security and the loan a broker makes using that security as collateral.

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. The investment's term or remaining maturity is measured from the settlement date to final maturity.

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

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

MONEY MARKET MUTUAL FUND: A mutual fund that invests exclusively in short-term securities. Examples of investments in money market funds are certificates of deposit and U.S. Treasury securities. Money market funds attempt to keep their net asset values at $1 per share.

MORTGAGE PASS-THROUGH SECURITIES: A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security

MUNICIPAL SECURITIES: Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND: An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

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

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.

SECURITIES & EXCHANGE COMMISSION (SEC) RULE 15C3-1: An SEC rule setting capital requirements for brokers and dealers. Under Rule 15c3-1, a broker or dealer must have sufficient liquidity in order to cover the most pressing obligations. This is defined as having a certain amount of liquidity as a percentage of the broker/dealer's total obligations. If the percentage falls below a certain point, the broker or dealer may not be allowed to take on new clients and may have restrictions placed on dealings with current client.

SUPRANATIONAL: A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

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.