CITY OF MANHATTAN BEACH
INVESTMENT POLICY
Reviewed/Revised July 2025

Table of Contents

1. Policy

The purpose of this document 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 short-term borrowing programs which coordinate working capital requirements and investment opportunity. In concert with these requirements are the many facets of an appropriate and secure short-term investment program.

2. Scope

It is intended that this policy cover all short-term operating funds and investment activities under the direct authority of the City. These funds are described in the City's annual financial report and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds
- Internal Service Funds
- Fiduciary Funds

This investment policy does not apply to Bond Proceeds or Deferred Compensation Funds. California Government Code Section 5922(d) authorizes bond, certificates of participation notes and other debt issue proceeds to be invested in accordance with the related offering documentation. These Code Sections recognize the unique needs and objectives of such proceeds. Likewise, Deferred Compensation Plans are covered under California Government Code.

3. Objectives

A. Safety: Safety of principal is the foremost objective of the City, followed by liquidity and yield. Each investment transaction shall seek to first ensure that capital losses are avoided, whether from securities defaults or erosion of market value.

Investment decisions should not incur unreasonable credit or market risks in order to obtain current investment income.

Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in only very safe securities and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the City's cash flow.

Market risk, defined as the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by structuring the portfolio so that securities mature at the same time that major cash outflows occur, thus eliminating the need to sell securities prior to their maturity. It shall also be mitigated by prohibiting the taking of short positions (selling securities that the City does not own). It is explicitly recognized herein, however, that in a diversified portfolio occasional measured losses are inevitable and must be considered within the context of overall investment return.

B. Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated. This need for investment liquidity may be tempered to the extent that the City is able to issue short-term notes to meet its operating requirements, if beneficial.

C. Return on Investments: The investment portfolio shall be managed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow requirements, and state and local law, ordinances or resolutions that restrict the placement of short-term funds.

D. While the City will not make investments for the purpose of trading or speculation as the dominant criterion, the Treasurer and Finance Director shall seek to enhance total portfolio return by means of ongoing portfolio management. The prohibition of speculative investments precludes investments primarily directed at gains or profits from conjectural fluctuations in market prices.

4. <u>Prudence</u>

The City adheres to the guidance provided by the "prudent investor standard" in the context of managing its overall portfolio. Persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the prudent investor standard which states, "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".

All participants in the investment process shall act responsibly as custodians of the public trust. The Treasurer and City Staff shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. Nevertheless, 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.

By exercising their authority with due diligence and prudence, and in accordance with the City of Manhattan Beach Investment Policy, the Treasurer and City Staff will not be held personally liable for any individual investment losses or for total portfolio losses.

5. <u>Delegation of Authority</u>

Pursuant to the California Government Code 53607, the legislative body (City Council) may invest the City's funds or delegate that responsibility to the City Treasurer, who assumes full responsibility for all investment transactions and ensures a monthly report of those transactions is provided to the City Council until the delegation is revoked or expired. The City Council may renew the delegation of authority each year.

The City Treasurer shall establish a system of controls with the Finance Director to regulate the activities of City officials and their procedures, in the event circumstances require timely action and the City Treasurer is not present or able to carry out his/her duties as Treasurer.

6. Ethics and Conflicts of Interest

The Treasurer and City Staff shall refrain from personal business activity that could conflict with proper execution and management of the policy and the investment program, or which could impair their ability to make impartial decisions. The Treasurer and City Staff involved with investments must provide a public disclosure document annually to the City Clerk's Office through a Statement of Economic Interests - Form 700 pursuant to the City's Conflict of Interest Code. Furthermore, these investment officials must refrain from undertaking personal investment transactions with the same individual(s) employed by the financial institution with whom business is conducted on behalf of the City, and they shall further disclose to the City Clerk's Office any large personal financial/investment positions that could be related to the performance of the City.

7. Finance Subcommittee

The City Council will appoint a Finance Subcommittee for the purpose of overseeing the implementation of the City's investment program and assuring it is consistent with the investment policy as approved by the City Council. The Finance Subcommittee shall consist of the City Treasurer as Chairperson and two members of the City Council and shall meet at least quarterly to determine general strategies and to monitor results. The Finance Subcommittee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, potential risks to the City's funds, approval of authorized financial institutions, and the target rate of return on the investment portfolio. Written investment procedures must be approved by the Finance Subcommittee. Professional and technical advisory support for the Finance Subcommittee shall be provided by the City Treasurer, City Manager and Finance Director.

8. Reporting

The Finance Director shall prepare a monthly investment report and submit to the City Manager, the City Council and the City Treasurer. Schedules of the monthly report shall itemize the month's investment purchases, sales and maturities and indicate their effect on portfolio value; itemize all investments and deposits in the portfolio by investment or deposit category, providing essential identifying characteristics for each investment or deposit; indicate the percentage of the portfolio represented by each investment and by each investment category; show all par values, market values and costs at time of purchase, together with each item's coupon or discount rate and current earning rate; show the average earning rate for the portfolio; indicate distribution of the portfolio by maturity category and provide other relevant detail to accomplish disclosure of investment activity and portfolio status.

9. Investment Instruments

General guidelines that the City should follow in managing its investments are as follows:

- No investment will be purchased which matures more than five years from the date of settlement without approval by the City Council at least three months prior. Purchases with a forward settlement date exceeding 45 days from the time of investment are prohibited.
- Maturities of individual investments shall be diversified, attempting to match cash flow requirements where possible.
- The use of callable securities is permitted within the investment classes listed.

To reduce overall portfolio risk while attempting to attain market value rates of return consistent with the primary objectives of safety and availability of funds, investments shall be diversified across types of investments, maturities of those investments, and institutions in which those investments are made. Generally, the portfolio is to be invested in U.S. Treasury and Federal Agency securities with a modest addition of Bankers Acceptances (BA's) and Certificates of Deposit (CD's), and high-grade Medium-Term Corporate Notes.

Permitted Investments per City Policy

Investments shall be made only in those instruments specifically authorized by California State laws (section 53600-53609). The City's specific permitted investment guidelines are listed below. **These are in addition to, and must be used in conjunction with, the State of California statutes applicable to Municipal Investments (see Attachment A).** It should be noted that in some cases the City's permitted investments are more restrictive than the State guidelines.

Permitted Instruments	City Policies/Limitations
State (LAIF) or County Investment Pools	**Dollar Maximum:** $75 million (State limit) **Portfolio Maximum:** 50% (City limit, unless authorized by Finance Subcommittee – see below)
Federally Insured Banks & Thrifts/Time Deposits	**Dollar Maximum:** Amount insured including accrued interest **Term Maximum:** 5 Years
U.S. Treasuries	**Dollar Maximum:** None **Term Maximum:** 5 Years
Government Sponsored Enterprises* (US Agencies)	**Term Maximum:** 5 Years **Portfolio Maximum:** 60%; 33-1/3% per issuer
Bankers Acceptances	**Term Maximum:** 180 Days **Portfolio Maximum:** 20%; 5% per issuer
Commercial Paper	**Term Maximum:** 270 Days **Portfolio Maximum:** 15%; 5% per issuer (including Medium-Term Notes)
Medium-Term Notes	**Term Maximum:** 5 Years **Portfolio Maximum:** 20%; 10% per sector; 5% per issuer (including Commercial paper) **Ratings Minimum:** Aaa to A1 (Moody's) or AAA to A+ (Standard and Poor's)

	Make Whole Call: Only when the MTN is purchased at a discount (i.e. yield-to-maturity exceeds coupon) or par
Negotiable Certificates of Deposit	**Term Maximum:** 5 Years **Portfolio Maximum:** 20%; lesser of 5% or $1 million per issuer **Ratings Minimum:** Aaa to A1 (Moody's) or AAA to A+ (Standard and Poor's) above FDIC Insurance Limit
Repurchase Agreements	**Term Maximum:** 1 Year **Portfolio Maximum:** 20% A Master Repurchase Agreement must be signed with the bank or dealer. (See Collateralization section below.)
Money Market Mutual Funds	**Portfolio Maximum:** 20%; 5% per issuer. Issuer must be institutional government money market mutual fund that abides by SEC regulations and have assets under management in excess of $500+ million.

**Federal National Mortgage Association (FNMA); Federal Home Loan Mortgage Corporation (FHLMC); Federal Home Loan Bank (FHLB); Federal Farm Credit Bank (FFCB); Federal Agricultural Mortgage Corp (FAMC); Tennessee Valley Authority (TVA); and any other U.S. Federal agency or instrumentality.*

State Local Agency Investment Fund (LAIF)

The City's policy with regard to LAIF is that no more than 50% of the investment portfolio may be deposited in LAIF at any time (as calculated at month end). Recognizing that LAIF is often the preferred depository for liquid funds, and in-flows during certain cash positive months results in higher LAIF balances, allowances may need to be made for short term holdings in LAIF that exceed 50%. As a result, in the event LAIF reaches the 50% threshold at any given month end, the portfolio must be reduced to the 50% level by the end of the next monthly reporting period.

When circumstances warrant, the City Treasurer may at his/her sole discretion permit the LAIF balance to exceed 50% of the portfolio for more than the one month period when market conditions make LAIF the preferred deposit for liquid-to-short term investment of City funds. The City Treasurer will provide written notification to the Subcommittee if LAIF exceeds 50% for more than 30 days.

Investments Not Permitted per City Policy

Certain investments are prohibited by Government Code section 53601.6, including inverse floaters, range notes, mortgage-derived interest-only strips and securities that result in zero interest accrual if held to maturity (except for money market funds). Besides investments prohibited by statute, this policy also disallows investment in the following due to a higher perceived risk:

- Asset Backed Securities
- State Obligations, including for California and the other 49 states
- Municipal Obligations, including for the City of Manhattan Beach and other local agencies
- Mortgage Pass-Through Securities
- Reverse Repurchase Agreements

10. Review of Investment Portfolio

The securities held by the City must be in compliance with Section 9. Investment Instruments at the time of purchase. Because some securities may not comply with Section 9. Investment Instruments subsequent to the date of purchase, the Treasurer and City Staff will review the portfolio annually as part of fiscal year-end procedures to identify those securities that do not comply. A subsequent change in rating status does not necessarily force the sale or disposition of the investment. In the event that a security has been downgraded or otherwise found to be noncompliant, the Treasurer and City Staff will assess the risk exposure, make a decision on the course of action, and advise the Finance Subcommittee.

11. Diversification

The City will diversify its investments by security type and institution to avoid incurring unreasonable and avoidable risks associated with concentrating investments in specific security types, maturity segments, or in individual financial institutions. Specific limitations are identified in Section 9. Investment Instruments.

12. Maximum Maturities

Maximum maturities identified in the chart of Permitted Investments refer to the total remaining term from settlement date, which may differ from the original term at time of issue.

To the extent possible, the City attempts to match its investments with anticipated cash flow requirements. The City will not directly invest in securities maturing more than five years from the date of purchase. The Treasurer may temporarily exceed this guideline when repositioning the portfolio to match a specific cash flow need, provided that the City Council has given approval at least three months prior to purchasing any investment maturing more than five years from the date of purchase.

13. Relationships with Financial Institutions

A. The City may only purchase statutorily authorized investments, not purchased directly from the issuer, but from either an institution licensed by the state as a broker/dealer, from a national or state chartered bank, from a federal or state savings institution, from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank, or a member of a securities exchange.

B. Financial institutions with which the City conducts investment activities must agree in writing to undertake reasonable efforts to prevent illegal and/or imprudent transactions involving City funds. Should it come to the attention of the Finance Director that City funds have been involved in illegal and/or imprudent transactions, it will be reported to the City Council along with options for dealing with the situation.

   All security dealers who wish to engage in transactions with the City must meet the City's requirements for reliability and safety.

C. To ensure yields consistent with this policy and to provide for the objective investment of City funds, the City's investment procedures shall be designed to include transactions with several firms that compete directly for public business, and to encourage competitive bidding on transactions. Such bids and offers shall be made available upon request to the Finance Subcommittee and the City Manager.

D. The City shall utilize a minimum of two financial institutions deemed eligible by the Finance Subcommittee to place all investment purchases. Based on a periodic evaluation, securities dealers, banks and other financial institutions will be dropped or continued on the eligibility list. The following criteria will be used in the evaluation:

1. Prompt and accurate confirmation of transactions
2. Efficient securities delivery
3. Accurate market information account servicing

In order to assist in identifying "qualified financial institutions," the Finance Director shall forward copies of the City's investment policy to those financial institutions with which the City is interested in doing business and require written acknowledgement of the Policy.

All qualified financial dealers must supply the City with the following:

- Annual audited financial statements
- Proof of Financial Industry Regulatory Authority (FINRA) certification
- Trading Resolution
- Proof of State of California registration
- Completed Broker/Dealer Questionnaire
- Certification of having read the City's policy

The City will maintain an authorized agreement with at least one eligible broker who is associated with an institutional (versus retail) division of a primary brokerage firm.
An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer (or Finance Director). A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.

14. Investment Pools/Money Market Mutual Funds

A thorough investigation of the investment pool and/or money market mutual fund is required prior to investing and on a continual basis thereafter to evaluate the suitability and risks of the pool. The investigation will, at a minimum, obtain the general information:

- A description of eligible investment securities, and a written statement of investment policy and objectives;
- A description of interest calculations and how they are distributed, and how gains and losses are treated;
- A description of how the securities are safeguarded (including the settlement processes) and how often the securities are priced and the program audited;
- A description of who may invest in the program, how often, and what size deposits and withdrawals are allowed;
- A schedule for receiving statements and portfolio listings;
- A description of the utilization and level of reserves, retained earnings or other collateral used by the fund;

- A fee schedule that discloses when and how fees are assessed; and
- Whether the fund is eligible for bond proceeds and/or whether it will accept such proceeds.

15. Collateralization

Collateralization is normally required on two types of investments: certificates of deposit and repurchase agreements. The City does not invest in time deposits or certificates of deposit above the FDIC-insured limit. In order to anticipate market changes and provide a level of security for all funds, the collateralization level for repurchase agreements will be marked-to-market daily to a market valuation of 102% of principal and accrued interest.

16. Safekeeping and Custody

A. All City investments shall have the City of Manhattan Beach as its registered owner, and all interest and principal payments and withdrawals shall indicate the City of Manhattan Beach as the payee.

B. All securities shall be safe kept with a qualified financial institution, contracted by the City as a third-party custodian. All securities shall be acquired by the safekeeping institution on a “delivery-versus-payment” (DVP) basis. In other words, the security must be delivered before City funds are released. The DVP basis for delivery also applies to the delivery and safekeeping of repurchase agreement collateral.

C. Original copies of non-negotiable certificates of deposit and confirming copies of all other investment transactions must be delivered to the City.

17. Internal Control

The Finance Director shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City. Controls deemed most important include: control of collusion, separation of duties, separating transaction authority from accounting and recordkeeping, custodial safekeeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized portfolio managers, documentation of transactions and strategies, and ethical standards.

The Finance Director shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with established policies and procedures.

18. Risk Tolerance

The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity.

Portfolio diversification is employed as a way to control risk, as referenced above in paragraph III.D. The Treasurer and City Staff are expected to display prudence in the selection of securities, as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio.

19. Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and cash flow needs. Investment return becomes a consideration only after the basic requirements of investment safety and liquidity have been met.

The City's investment strategy is passive (buy-and-hold). Given this strategy, the Treasurer and/or Finance Director shall determine whether market yields are being achieved by comparing the total return of the portfolio to the monthly LAIF rate and the 12-month rolling average 2-Year Treasury Constant Maturity rate. However, the reporting of these benchmarks is only to be used as a reference tool and therefore should not imply that the City should add additional risk to the portfolio in order to attain or exceed a benchmark. Benchmarks may change over time based on changes to market conditions or cash flow requirements.

20. Investment Policy Adoption

The policy shall be reviewed annually by the Finance Subcommittee and any modifications made thereto must be approved by the City Council. The City's investment policy shall be adopted annually by the City Council.

The Finance Director shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts and depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City.

ATTACHMENT A:
Summary of State of California Statutes Applicable to Municipal Investment

The following investments are authorized by California State Code, Title 5, Division 2, Sections 16340, 16429.1, 53601, 53601.8, 53635, 53635.2, and 53638.

California Authorized Investments	Key Limitation Summary*
Local Agency Bonds	**Portfolio Maximum:** None
US Treasury Obligations	**Portfolio Maximum:** None
State Obligations – CA and Others	**Portfolio Maximum:** None
CA Local Agency Obligations	**Portfolio Maximum:** None
United States Agency Obligations	**Portfolio Maximum:** None
Bankers Acceptances	**Portfolio Maximum:** 40%; 30% in any one issuer **Term Maximum:** 180 days
Commercial Paper	Domestic corporation with total assets greater than $500 million **Ratings Minimum:** A-1 rated commercial paper **Portfolio Maximum:** 25%; 10% in outstanding CP and medium-term notes of any single issuer **Term Maturity:** 270 days
Negotiable Certificates of Deposit and CD Placement Service	Nationally or state-chartered bank, a savings association or a federal association, a state of federal credit union, or a state licensed branch of a foreign bank. **Portfolio Maximum:** 30%
Medium Term Corporate Notes	Domestic corporations rated "A" or better **by an NRSRO** **Portfolio Maximum:** 30%
Repurchase Agreements	**Maximum Maturity:** One Year
Reverse Repurchase Agreements	Security subject to repurchase has been owned & fully paid for at least 30 days prior to sale. Funds received cannot be used to purchase securities with a maturity longer than 92 days. **Portfolio Maximum:** 20% of the base value of the portfolio **Term Maximum:** 92 days

California Authorized Investments	Key Limitation Summary*
Supranational Obligations	**Portfolio Maximum:** 30% **Minimum Rating:** "AA" rating category or its equivalent or better
Shares of Beneficial Interest Issued By Diversified Management Companies (Mutual & Money Market Funds)	**Portfolio Maximum:** 20%; 10% per fund Money Market funds registered with the SEC; attained the highest ranking by not less than two nationally recognized rating organizations; assets in excess of $500 million; investment advisor with not less than five years of experience
Local Agency Investment Fund	**Investment Maximum:** $50 million
Mortgage pass-through and Asset-Backed Securities	**Portfolio Maximum:** 20% **Minimum Rating: "**AA" national rating
Other Obligation Valuation Requirements: Promissory notes secured by first mortgages and first trust deeds which comply with Section 53651.2. With the consent of the treasurer, letters of credit issued by the Federal Home Loan Bank of San Francisco which comply with Section 53651.6.	(a) Eligible securities, except eligible securities of the classes described in subdivisions (m) and (p) of Section 53651, shall have a market value of at least 10 percent in excess of the total amount of all deposits of a depository secured by the eligible securities. (b) Eligible securities of the class described in subdivision (m) of Section 53651 shall have a market value at least 50 percent in excess of the total amount of all deposits of a depository secured by those eligible securities. (c) Eligible securities of the class described in subdivision (p) of Section 53651 shall have a market value of at least 5 percent in excess of the total amount of all deposits of a depository secured by those eligible securities.

California Authorized Investments	Key Limitation Summary*
Moneys held by a trustee or fiscal agent pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements	May be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.
Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest	Securities of the types listed by Section 53651 Market value of at least 110% of underlying security value
Other Code Restrictions & Clarifications	A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in inverse floaters, range notes, or mortgage-derived, interest-only strips. A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in any security that could result in zero interest accrual if held to maturity. No more than 5 percent of the total assets of the investments held by a local agency may be invested in the securities of any one issuer, except the obligations of the United States government, United States government agencies, and United States government-sponsored enterprises. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase.

**Unless otherwise stated, all investments have a five-year maximum maturity limitation.*

ATTACHMENT B:

GLOSSARY

AGENCIES: Federal agency securities and/or government-sponsored enterprises, such as Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bank (FFCB), etc.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution, as well as the issuer, guarantees payment of the bill.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides. In the money market, brokers are active in markets in which banks buy and sell money and in inter-dealer markets.

CERTIFICATES OF DEPOSIT (CD): Time deposits of a bank or savings and loan. They are purchased in various denominations with maturities ranging from 30 to multiple years. The interest is calculated on a 360-day, actual day month basis and is payable monthly.

NEGOTIABLE CERTIFICATES OF DEPOSIT: Unsecured obligations of the financial institution, bank or savings and loan, bought at par value with the promise to pay face value plus accrued interest at maturity. They are high-grade negotiable instruments, paying a higher interest rate than regular certificates of deposit. The primary market issuance is in multiples of $1,000,000, the secondary market usually trades in denominations of $500,000, although smaller lots are occasionally available. As a matter of practice, only the ten largest U.S. banks, where there is a secondary market established for continued liquidity, are considered for investment.

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 monies.

COMMERCIAL PAPER: Short-term unsecured promissory note issued by a corporation to raise working capital. These negotiable instruments are purchased at a discount to par value or at par value with interest bearing. Commercial paper is issued by corporations such as IBM, Bank of America, etc.

Local agencies are permitted by State law to invest in commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical ratings as provided by Moody's Investor's Service, Inc., or Standard and Poor's Corporation. Purchases of eligible commercial paper may not exceed 270 days maturity nor exceed 30% of the local agency's surplus funds.

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

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): There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipts 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 value at 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.

DIVERSIFICATION: Dividing investment funds among a variety of securities and issuers 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 FUNDS: Non-interest bearing deposits held by member banks at the Federal Reserve. Also used to denote "immediately available" funds in the clearing sense. "Fed Funds" also used to refer to these funds.

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

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, D.C., 12 Regional Banks and about 5,700 commercial banks that are members of the system.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures financial institutions' deposits, currently up to $250,000 per account.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): A U.S. Corporation and instrumentality of the U.S. government. Through its purchases of conventional mortgages, it provides liquidity to the mortgage markets, much like FNMA. FHLMC'S Securities are highly liquid and widely accepted. FHLMC assumes and guarantees that all security holders will receive timely payment of principal and interest.

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 & 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 corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

GOVERNMENTAL NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, 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 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.

LAIF (Local Agency Investment Fund): A special fund in the California State Treasury which local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is $5,000, in multiples of $1,000 above that, with a maximum balance of $75 million for any agency. The City is restricted to a maximum of fifteen transactions per month. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share basis determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly. The State retains an amount for reasonable costs of making the investments, not to exceed one-quarter of one percent of the earnings.

MAKE WHOLE CALL: A type of call provision on a bond allowing the borrower to pay off remaining debt early. The borrower makes a lump sum payment derived from a formula based on a predetermined spread to an index (typically a Treasury Note), or par value of the bond.

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

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

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

MEDIUM-TERM CORPORATE NOTES: Unsecured promissory notes issued by a corporation organized and operating in the United States. These are negotiable instruments and are traded in the secondary market. Medium term corporate notes can be defined as extended maturity commercial paper.

MONEY MARKET MUTUAL FUNDS: Mutual funds that invest exclusively in short-term money market instruments. MMF’s seek the preservation of capital as a primary goal while maintaining a high degree of liquidity and providing income representative of the market for short-term investments.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO): A credit rating agency that issues credit ratings that the Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes.

PORTFOLIO: Collection of securities held by an investor.

PORTFOLIO MANAGER: City Treasurer or Finance Director.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

REPURCHASE AGREEMENTS (RP OR REPO): A repo or reverse-repo is a short-term investment transaction. Banks buy temporarily idle funds from a customer by selling U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date. Repurchase agreements are typically for one to ten days in maturity. The customer receives interest from the bank. The interest rate reflects both the prevailing demand for Federal funds and the maturity of the repo. Some banks will execute repurchase agreements for a minimum of $100,000 to $500,000, but most banks have a minimum of $1,000,000. A reverse-repo is exactly what the name implies.

SAFEKEEPING SERVICE: Storage and protection of assets provided by an institution serving as an agent.

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

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

SETTLEMENT DATE: The date on which a trade is cleared by delivery of securities against funds. This date may be the same as the trade date or later.

SUPRANATIONAL: Organization formed by a group of countries through an international treaty with specific objectives such as promoting economic development. Examples include International Bank for Reconstruction and Development (IBRD or World Bank), International Finance Corporation (IFC) and InterAmerican Development Bank (IADB).

TENNESSEE VALLEY AUTHORITY (TVA): A U.S. Corporation created in the 1930's, to electrify the Tennessee Valley area; currently a major utility headquartered in Knoxville Tennessee. TVA's securities are highly liquid and are widely accepted.

TRADE DATE: The date on which a transaction is initiated or entered into by the buyer and seller.

U.S. TREASURY BILLS: Issued weekly with maturity dates up to one year. They are issued and traded on a discount basis with interest figured on a 360-day basis, actual number of days. They are issued in amounts of $10,000 and up, in multiples of $5,000. They are a highly liquid security.

U.S. TREASURY NOTES: Initially issued with two- to ten-year maturities. They are actively traded in a large secondary market and are very liquid. The Treasury may issue note issues with a minimum of $1,000, however, the average minimum is $5,000.

YIELD: The current rate of return on an investment security generally expressed as a percentage of the securities current price.

YIELD TO MATURITY: The rate of return to the investor earned from payments of principal and interest, with interest compounded semi-annually at the stated yield as long as the security remains outstanding until the maturity date.