

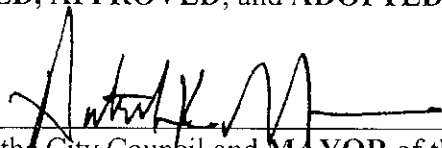
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RESOLUTION NO. 13-6846

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
HERMOSA BEACH, CALIFORNIA, ACKNOWLEDGING THE
RECEIPT, FILING AND APPROVAL OF THE REVISED ANNUAL
STATEMENT OF INVESTMENT POLICY**

SECTION 1. The Investment Policy attached hereto and incorporated herein by reference is hereby adopted as the investment policy for the City of Hermosa Beach.

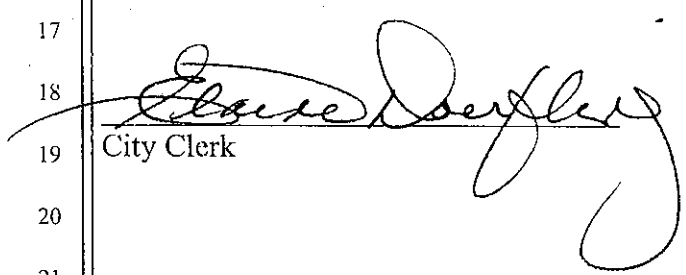
PASSED, APPROVED, and ADOPTED this 14th day of May 2013.



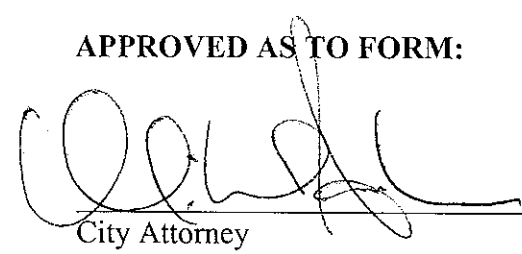
PRESIDENT of the City Council and **MAYOR** of the City of Hermosa Beach, California

ATTEST:

APPROVED AS TO FORM:



City Clerk



City Attorney

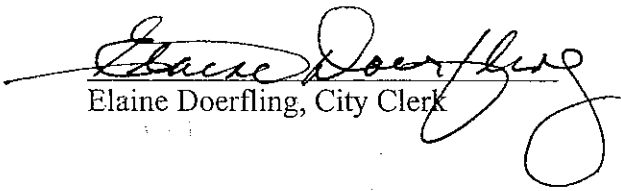
STATE OF CALIFORNIA
COUNTY OF LOS ANGELES
CITY OF HERMOSA BEACH

I, Elaine Doerfling, City Clerk of the City of Hermosa Beach, California, do hereby certify that the foregoing Resolution No. 13-6846 was duly and regularly passed, approved and adopted by the City Council of the City of Hermosa Beach at a Regular Meeting of said Council at the regular place thereof on May 14, 2013.

The vote was as follows:

AYES: DiVirgilio, Fishman, Tucker, Mayor Bobko
NOES: Duclos
ABSTAIN: None
ABSENT: None

Dated: May 14, 2013


Elaine Doerfling, City Clerk



HERMOSA BEACH INVESTMENT POLICY

CITY COUNCIL APPROVAL DATE: MAY 14TH, 2013

SUPERSEDES: Resolution No. 12-6782

Policy

This policy is intended to provide guidelines for the prudent investment of funds of the City of Hermosa Beach (referred to throughout as 'the City') and to outline the policies for maximizing the efficiency of the City's cash management. The ultimate goal is to enhance the economic status of the City consistent with the prudent protection of the City's investments. This investment policy has been prepared in conformance with all pertinent existing laws of the State of California including California Government Code Sections 53600, *et seq.*

Scope

It is intended that this policy cover all funds and investment activities of the City except for the proceeds of certain capital project finance programs, which would be invested in accordance with provisions of their specific bond indentures. These funds would be defined and accounted for in the City's audited annual Basic Financial Statements Report and includes any new funds created unless specifically excluded by the City's Staff and Council.

Prudent Investor Standard

The City operates its investment portfolio under the Prudent Investor Standard (California Government Code Section 53600.3) which states, that "when investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated need of the City, that a prudent person 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 City".

This standard shall be applied in the context of managing the overall portfolio. Investment officers, acting in accordance with written procedures and this investment policy and exercising the above standard of 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 a timely fashion and appropriate action is taken to control adverse developments.



Investment Objectives

When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing the City's funds,

- (a) The primary objective is to safeguard the principal of the funds.
- (b) The secondary objective is to meet the liquidity needs of the City.
- (c) The third objective is to achieve a maximum return on invested funds without comprising 6110.4.2 or 6110.4.1.

Investing within the conformity of the City's cash flow

It is the policy of the City to invest public funds in a manner to obtain the highest yield obtainable with the maximum security while meeting the daily cash flow demands of the City as long as investments meet the criteria established by this policy for safety and liquidity and conform to all laws governing the investment of City funds.

Safety of Principal.

Safety of principal is the foremost objective of the City. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they arise from securities defaults, institution default, broker-dealer default, or erosion of market value of securities. The City shall mitigate the risk to the principal of invested funds by limiting credit and interest rate risks. Credit Risk is the risk of loss due to the failure of a security's issuer or backer. Interest Rate Risk is the risk that the market value of the City's portfolio will fall due to an increase in general interest rates.

Credit risk

Credit Risk will be mitigated by:

- (a) Limiting investments to only the most credit worthy types of securities.
- (b) By pre-qualifying the financial institutions with which the City will do business.
- (c) By diversifying the investment portfolio so that the potential failure of any one issue or issuer will not place an undue financial burden on the City.

Interest rate risk

Interest rate risk will be mitigated by structuring the City's portfolio so that securities mature to meet the City's cash requirements for ongoing obligations, thereby reducing the possible need to sell securities on the open market at a loss prior to their maturity to meet those requirements.



Liquidity

Availability of sufficient cash to pay for current expenditures shall be maintained in local government investment pools that offer daily liquidity, or short-term securities that can easily be converted into cash because they have secondary markets.

Rates of Return

Yield on investments shall be considered only after the basic requirements of safety and liquidity have been met. The investment portfolio shall be designed to attain a market average rate of return throughout economic cycles, taking into account the City's risk constraints, the composition and cash flow characteristics of the portfolio, and applicable laws.

Delegation of Authority and Safeguards

Authority to manage City's investment program is derived from the California Government Code Sections 41001 – 41007 and 53600 - 53900. The City Manager, Finance Director, and the City Council hereby delegate management responsibility for implementing the investment program to the City Treasurer, according to the procedures set forth, and consistent with this investment policy. Such procedures shall authorize the City Treasurer to execute investment transactions subject to the written approval of either the City Manager or Finance Director. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established and approved by either the Finance Director or City Manager.

Procedures as stated in City Resolution No. 12-6822

- (a) The City's funds are currently managed in a safe and prudent manner, with numerous safeguards in place to assure that City funds cannot be misdirected or misappropriated.
- (b) Existing safeguards include dual controls on all wired transfers and all City checks.
- (c) Contractual relationships with any brokerage entities to be engaged by the City to invest City funds shall be subject to the prior review and approval of the City Council.
- (d) All investment transactions must be authorized by the City Manager or Finance Director prior to their execution.
- (e) The sole authorized signators on City banking and brokerage accounts shall be the City Manager, the Finance Director and Accounting Supervisor.



(f). In the event of the mental or physical incapacity of the City Treasurer, the functions of the City Treasurer shall be performed by the Finance Director under the direct supervision of the City Manager.

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose any material financial interest in financial institutions that conduct business with this City, and they shall further disclose any large personal financial / investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment preferences to those of the City, particularly with regard to the timing of transactions, and shall avoid transactions that might impair public confidence.

Authorized Financial Dealers and Institutions

The City Treasurer with the assistance of the Deputy Treasurer will establish and maintain a list of the financial institutions and broker/dealers authorized to provide investment and depository services to the City, will perform a review of the financial condition and registrations of the qualified institutions, and require audited financial statements to be on file for each approved institution, at least every two years. At that time, the City shall send a copy of their current Investment Policy and Questionnaire to all financial institutions and broker/dealers approved to do business with the City. Receipt of the Investment Policy including confirmation that it has been received and reviewed by the person(s) handling the City's account, shall be acknowledged in writing within thirty (30) days.

Depositories

In selecting depositories, the credit worthiness of institutions shall be considered and the City Treasurer and the Finance Director shall jointly conduct a comprehensive review of prospective depositories' credit characteristics and financial history.

Any institution meeting the City's required criteria will be eligible for placement of public deposits by the City, subject to approval by the City Council. Any institution falling below the City's established minimum criteria shall be removed from the approved list, no new deposits may be placed with that institution and all funds remaining shall be withdrawn as the deposits mature.

Brokers and Dealers

All brokers and dealers that desire to become qualified bidders for investment transactions with the City must respond to our "Broker Dealer Questionnaire" and submit related documents relative to eligibility. This includes a current audited financial



statement, proof of state registration, proof of FINRA (Financial Industry Regulatory Authority) registration and a certification they have received and reviewed the City's Investment Policy and agree to comply with the provisions outlined in the Investment Policy. The City Treasurer may establish any additional criteria deemed appropriate to evaluate and approve any financial services provider. The selection process for broker-dealers shall be open to both "primary dealers" and "secondary/regional dealers" that qualify under Securities and Exchange Commission Rule 15c3-1 (Uniform Net Capital Rule), and the provider's representative must be experienced in institutional trading practices and familiar with the California Government Code as it relates to investments by a public entity.

Authorized and Suitable Investments

The City is provided a broad spectrum of eligible investments under California Government Code Section 53600 et seq. The City may choose to restrict its permitted investments to a smaller list of securities that more closely fits the City's cash flow needs and requirements for liquidity. If a type of investment is added to California State Code 53600, it will not be added to the City's Authorized Investment List until this policy is amended and approved by the City Council. If a type of investment permitted by the City should be removed from California Government Code 53600, it will be deemed concurrently removed from the City's Authorized Investment List, but existing holdings may be held until they mature if it is in the best interest of the City and recommended by the Treasurer and approved by the City Manager or Finance Director.

Credit criteria listed in this Policy refers to the credit rating of the issuing organization at the time the security is purchased. The City may from time to time be invested in a security whose rating is downgraded. In the event a rating drops below the minimum allowed by this Policy, the Treasurer will recommend an appropriate plan of action to the City Manager and Finance Director no less frequently than quarterly.



Within the context of these limitations, the following investments are authorized:

PERMITTED INVESTMENTS/ DEPOSITS	City of Hermosa Beach % of TOTAL LIMITS / MATURITY LIMITS	State 53600- % of TOTAL LIMITS / MATURITY LIMITS
Government Investment Pools <ul style="list-style-type: none"> • LAIF (Local Agency Investment Fund) California State Treasurer's Office • CALTrust (Investment Trust of California JPA) • LACPIF (Los Angeles County Pooled Investment Fund) 	<ul style="list-style-type: none"> • No maximum, no maturity limit • Maximum permitted by 53601, no maturity limit • No maximum, no maturity limit 	<ul style="list-style-type: none"> • No maturity limit, \$40 million max permitted by State Treasurer • No maturity limit, no \$ max • No maturity limit, no \$ max
Securities of the U.S. Government including U.S. Government Agencies and Instrumentalities **	Unlimited % of total portfolio, 5 years	No % limit, 5 years
Registered State Warrants or Treasury Notes or Bonds of the State of California **	No % limit 5 years	No % limit, 5 Years
Bonds, notes, warrants, or other evidences of indebtedness of any local Agency within the State of California **	No % limit 5 years	No % limit, 5 Years
Bankers Acceptances **	20%, 5% per issuer, 180 days	40% max, 30% per issuer 180 days
Commercial Paper **	25%, 5% per issuer, 180 Days	25% max, 10% per issuer, 270 days
Negotiable Certificates of Deposit **	30%, 5% per issuer, 5 Years	30 %, 5 Year
Time Certificates of Deposit **	50%, 5 Years	No % limit, 5 years
Medium Term Corporate Notes AA or Better	30%, 5 Years, "AA" or higher, 5% max per issuer A or AA	30 % max, 5 years, "A or higher issuer
Money Market / Passbook Savings / Demand Deposits **	20 percent, no maturity limit	20 %, no maturity limit

One of the purposes of this Investment Policy is to define what investments are permitted. If a type of security is not specifically authorized by this policy, it is not a permitted investment.

**** Appendix A, attached hereto and incorporated herein by reference, sets forth a more detailed description of the authorized investments listed above, along with additional restrictions.**



Master Repurchase Agreement

The City may invest (Government Code Section 53601(i)) in overnight and term repurchase agreements with Primary Dealers of the Federal Reserve Bank of New York rated "AA" or better by Moody's Investors Service or Standard & Poor's Corporation with which the City has entered into a Master Repurchase Agreement.

All collateral used to secure this type of transaction is to be delivered to a third party prior to release of funds. The third party will have an account in the name of the City of Hermosa Beach. The market value of securities used as collateral for repurchase agreements shall be monitored on a daily basis and will not be permitted to fall below a minimum of 102 percent of the value of the repurchase agreement. Collateral shall not have maturities in excess of five years. The right of substitution will be granted, provided that permissible collateral is maintained.

In order to conform with provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct obligations of and guaranteed by the U.S. Government and Agency securities as permitted under this policy. The City will maintain a first perfected security interest in the securities subject to the repurchase agreement and shall have a contractual right to liquidation of purchased securities upon the bankruptcy, insolvency or other default of the counter party.

Investment Pools

A thorough investigation of any investment pool, money market or mutual fund is required prior to investing and on a continual basis. The purpose of this investigation is to determine the suitability of a pool or fund and evaluate the risk of placing funds with that pool or fund. The investigation will, at a minimum, obtain the following information:

- (a) A description of interest calculations and how it is distributed, and how gains and losses are distributed.
- (b) A description of how securities are safeguarded (including the settlement process) and how often the securities are marked to market and how often an audit is conducted.
- (c) A description of who may invest in the program, how often, what size deposits and withdrawals are permitted.
- (d) A schedule for receiving statements and portfolio listings.
- (e) Does the pool/fund maintain a reserve or retain earnings or is all income after expenses distributed to participants?
- (f) A fee schedule that discloses when and how fees are assessed.
- (g) Determining if the pool or fund is eligible for bond proceeds and/or will it accept such proceeds.



Collateralization of Uninsured Time Deposits

Uninsured Time Deposits (that exceed FDIC's limits per Institution) with banks and savings and loans shall be collateralized and monitored in the manner prescribed by state law for depositories accepting investment funds from public governmental entities.

Safekeeping and Custody of all Securities

All securities owned by the City shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of a custody agreement executed by the bank and the City. **All securities will be received and delivered using standard delivery versus payment (DVP) procedures.** The third party bank trustee agreement must comply with Section 53608 of the California Government Code. No outside broker/dealer or advisor may have access to City funds, accounts or investments and any transfer of funds must be approved by the City Manager or Finance Director.

Diversification and Risk

The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. To minimize the City's exposure to these types of risk, the portfolio should be diversified among several types of institutions, instruments and maturities. The City Treasurer shall minimize default risk by prudently selecting only instruments and institutions, which at the time of placement have been evaluated for their financial viability and compliance with this policy. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio. Risk shall also be managed by subscribing to a portfolio management philosophy that helps to control market and interest rate risk by matching investments with cash flow requirements. In the event of a default by a specific issuer, the Treasurer shall evaluate the liquidation of securities having comparable credit risks. Diversification strategies shall be established and reviewed by the City Manager and Finance Director.

Maximum Maturities

Every effort will be made to match investment maturities to cash flow needs. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, no more than 50% of the investment portfolio may be invested with maturities greater than 3 years. Unless matched to a specific requirement and approved by the City Council, no investment may be made with a maturity greater than 5 years.



Internal Control and Review

This Investment Policy shall be reviewed periodically by the City Manager and Finance Director. Modifications or changes to this policy are to be recommended by the City Manager and Finance Director for approval by the City Council. The City Treasurer shall submit this Investment Policy annually to the City Council for review and approval.

The external auditors shall review annually the investments and general activities associated with the investment program to ensure compliance with this Investment Policy. This review will provide internal control by assuring compliance with policies and procedures established by this Investment Policy.

Performance Standards

The investment portfolio will be managed in accordance with the standards established within this Investment Policy and will attempt to achieve a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints, cash flow needs and maturities of the investments. The basis to determine whether market yields are being achieved shall be the total return of the portfolio.

Reporting

The City Treasurer shall submit an investment report to the City Council every 30 days, and shall include information about the investment of all funds in the custody of the City. This report shall include all items listed in Section 53646(b) of the Government Code. These reports will include the following information about the investment of all funds:

- (a) A list of individual securities held at the end of the reporting period.
- (b) Unrealized gains or losses resulting from amortization or accretion of principal versus market value changes by listing the cost and market value of securities owned by the City.
- (c) Dollar weighted yield to maturity of the City's investments.
- (d) Maturity schedule by type, of each of the City's investments.
- (e) Market value, book value, par value and cost basis of all investments.



Appendix "A" Description of Authorized Investments and Restrictions

The following descriptions of authorized investments are included here to assist in the administration of this policy.

(a) **Local Agency Investment Fund (LAIF)**

The Local Agency Investment Fund (LAIF) is a special fund in the California State Treasury created and governed pursuant to Government Code Sections 16429.1 *et seq.* This law permits the City with the consent of the City Council, to remit money not required for the City's immediate need, to the State Treasurer for deposit in this special fund for the purpose of investment. LAIF currently limits investments to \$40 million from any one public agency. Principal may be withdrawn on one day's notice. The fees charged by LAIF are limited by statute (Legal Authority – Government Code Section 16429.1)

(b) **Securities of the U.S. Government including U.S. Government Agencies and Instrumentalities**

These obligations can be classified either as "Treasuries" or "Agencies" (Legal Authority- Government Code Sections 53601(b) and 53635 (b)). Treasury securities are obligations of the United States Treasury backed by the "full faith and credit" of the Federal government and can be of three types bills, notes, and bonds. There is no percentage limitation of the portfolio that can be invested in this category, though a five-year maturity limitation is applicable.

The City can invest in obligations issued by the Federal Government agencies such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Corporation (FHLMC). Such securities are obligations of the agencies themselves, but there is also an implied guarantee by the United States Government. All such obligations qualify as legal instruments and are acceptable as security for City deposits. (Legal Authority – Government Code Sections 53601 (e) and 53635 (e)).

(c) **Registered State warrants or Treasury Notes or Bonds of the State of California**

These include bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state. (Legal Authority – Government Code Sections 53601 (c) and 53635 (c)).

(d) **Bonds, Notes, Warrants, or Other Evidences of Indebtedness of Any Local Agency within the State of California**

These include bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by a California local agency, or



by a department, board, agency or authority of such a local agency. (Legal Authority-Government Code Sections 36301 (d) and 53635 (d)).

(e) **Bankers Acceptances**

The City may invest in Bankers Acceptances limited to banks rated a minimum of "A" by Moody's Investors Service and Standard & Poor's Corporation. The maximum investment maturity will be restricted to 270 days as per Government Code Section 53601(f). (Legal Authority-Government Code Sections 36301 (b) and 53635 (f)).

(f) **Commercial Paper**

Commercial Paper is issued by leading industrial and financial firms to raise working capital. The City shall only buy Commercial Paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investor Service, Inc. or Standard and Poor's Corporation (A1/P1 or higher). Eligible paper shall also be further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000) and having an "AA" or higher rating for the issuer's debt, other than commercial paper, if any, as provided for by Moody's Investors Service, Inc., or Standard and Poor's Corporation.

(g) **Negotiable Certificates of Deposit**

Investments are limited to deposits issued by a nationally or state-chartered bank or a state or federal association or by a federally or state-licensed branch of a foreign bank (Government Code Section 53601(h)) with a minimum rating of "AA" as assigned by Moody's Investors Service and Standard and Poor's Corporation. Negotiable Certificates of Deposit shall not exceed 40 percent of the City's surplus money which may be invested pursuant to this policy. As per section 53638 of the California Government Code, any deposit shall not exceed the total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution. Maximum investment maturity is restricted to five years. Investments in Negotiable Certificates of Deposit prohibited by Government Code Section 53635 (h) shall not be made. (Legal Authority – Government Code Section 53601 (h) and 53635 (h)).

(h) **Time Certificates of Deposit**

The City may invest in collateralized certificates of deposits issued by commercial banks and savings and loans (Government Code Sections 53601(h) and 53635(h)). A written depository contract is required with all institutions that hold City deposits. Securities placed in a collateral pool must provide coverage for at least 110 percent of all deposits that are placed in the institution. Acceptable pooled collateral is governed by California Government Code Section 53651. Real estate mortgages are not considered acceptable collateral by the City, even though they are permitted in Government Code Section 53651(m). All banks are required to provide the City with a regular statement of pooled



collateral. This report will state that they are meeting the 110 percent collateral rule (Government Code Section 53652(a)), a listing of all collateral with location and market value, plus an accountability of the total amount of deposits secured by the pool.

In the event that a bank does not meet the minimum ratings, a tri-party collateral arrangement may be substituted in lieu of a rating lower than "A". The third party institution must be acceptable to the City and have an account in the name of the City of Hermosa Beach. The market value of the collateral in the account must not fall below 110 percent of the value of the deposit(s) at any time. The securities in the account must conform to Government Code Section 53651 with the exception that real estate mortgages are not acceptable collateral. The City will maintain a first perfected security interest in the securities pledged against the deposit and shall have a contractual right to liquidation of pledged securities upon the bankruptcy, insolvency or other default of the counter party.

Deposits of up to \$250,000 are allowable in any institution that insures its deposits with the Federal Deposit Insurance Corporation, regardless of Moody's Investors Service or Standard and Poor's Corporation ratings. As per section 53638 of the California Government Code, any deposit shall not exceed that total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution.

(i) **LACPIF (Los Angeles County Pooled Investment Funds)**

LACPIF is a pooled investment fund which is invested under the authority of Los Angeles County Treasurer and Tax Collector. Funds held and managed for the benefit of school districts, community college districts, and municipal agencies solely within the County. Decisions on investments of funds in the Pool are made by the County Investment Officer, under the policy direction of the County Treasurer. The funds invested are highly liquid, and mostly mirror the same vehicles permitted in Government Code 53601 for municipalities to invest in.

(j) **Medium Term Notes**

Medium-term notes are obligations of a domestic corporation or depository institution having a rating of "A" or better by a nationally recognized rating service. (Legal Authority-Government Code Sections 53601(j) and 53635(j)).

(k) **Money Market / Passbook Savings / Demand Deposits**

These are authorized by Government Code Section 53637 and must be insured by FDIC, FSLIC or collateralized as required by State law.



Appendix "B" Glossary of Investment Terms

Because the Investment Policy of the City of Hermosa Beach is available to the public, related terminology is included as a part of this policy.

Accrued Interest - Interest earned but not yet received.

Active Deposits - Funds that are immediately required for disbursement.

Amortization - An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Asked Price - The price a broker dealer offers to sell securities.

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

Banker's Acceptance - A high quality, short-term money market instrument used to finance international trade. There has never been an instance of a failure to pay a banker's acceptance in full at its maturity date.

Basis Point - One basis point is one hundredth of one percent (.01% or 0.0001).

Bid Price - The price a broker dealer offers to purchase securities.

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

Broker - Someone who brings buyers and sellers together and is compensated for his/her service.

Callable Bond - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk - The risk to a bondholder that a bond may be redeemed prior to maturity.

Cash Sale/Purchase - A transaction that calls for delivery and payment of securities on the same day that the transaction is initiated.



Certificate of Deposit - A deposit of funds for a specified period of time that earns interest at a specified rate. Commonly known as "CDs." Maturities range from a few weeks to several years. Interest rates are set by the competitive market place.

Collateral - Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Commercial Paper - Short-term, negotiable unsecured promissory notes of corporations.

Comprehensive Annual Financial Report (CAFR) - The official annual financial report for the City. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principals (GAAP).

Credit Analysis - A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Current Yield - The interest paid on an investment expressed as a percentage of the current price of the security.

Custodian - A bank or other financial institution that keeps custody of stock certificates and other assets.

Delivery vs. Payment (DVP) - Delivery of securities with a simultaneous exchange of money for the securities.

Diversification - Dividing investment funds among a variety of securities offering independent returns and risk profiles.

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

Fair Value - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fannie Mae - Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Federal Deposit Insurance Corporation (FDIC) - Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently \$100,000) per account.



Federal Reserve System - The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks and 5,700 commercial banks that are members.

Freddie Mac - Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

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

Government Accounting Standards Board (GASB) - A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

Government Securities - An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

Inactive Deposits (Idle Funds) - Funds not immediately needed for disbursement.

Interest Rate - The annual yield earned on an investment, expressed as a percentage.

Interest Rate Risk - The risk associated with declines or rises in interest rates that cause an investment in a fixed-income security to increase or decrease in value.

Investment Policy - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Investment-grade Obligations - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating City.

Liquidity - An asset that can easily and rapidly be converted into cash without significant loss of value.

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.

Los Angeles County Pooled Investment Fund (LACPIF) The Treasurer and Tax Collector of Los Angeles County has delegated the authority to invest funds on deposit in the County Treasury which are held for local agencies including school districts community colleges, and discretionary depositors such as cities within the county.



Market Risk - The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value - Current market price of a security. The price at which a security is trading and could presumably be purchased or sold.

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

Medium Term (also known as **Mid-Term**) - Maturities of two to 1- years.

Moody's - Moody's Investment Service, Inc. One of the three best-known rating agencies in the United States, the others being Standard and Poor's Corporation (S&P) and Fitch IBCA, Inc. (Fitch).

FINRA (The Financial Industry Regulatory Authority) - A self-regulatory organization (SRO) of brokers and dealers in the securities business. Its regulatory mandate includes authority over all security firms that purchase, distribute, inventory and broker mutual fund shares, stocks, and all forms of debt securities issued for investment to the public. This organization answers to the SEC, Any individual of a securities firm the City chooses to execute investment transactions with must be licensed under FINRA..

Negotiable Certificate of Deposit-A large denomination certificate of deposit which can be sold in the open market prior to maturity.

New Issue - Term used when a security is originally "brought" to market.

Note - A written promise to pay a specified amount to a certain entity on demand or on a specified date.

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

Portfolio - Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

Premium - The amount by which the price paid for a security exceeds the security's par value.

Primary Dealer - A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Prime Rate - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.



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

Purchase Date - The date in which a security is purchased for settlement on that or a later date.

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.

Risk - Degree of uncertainty of return on an asset.

Safekeeping - Holding of assets (e.g., securities) by a financial institution

Safekeeping Service - Offers storage and protection of assets provided by an institution serving as an agent.

Sallie Mae - Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

Securities and Exchange Commission (SEC) - The federal District responsible for supervising and regulating the securities industry.

Settlement Date - The date on which a trade is cleared by delivery of securities against funds.

Standard and Poor's Corporation (S&P) - One of the three best-known rating agencies in the United States, the others being Moody's Investment Service, Inc. and Fitch IBCA, Inc. (Fitch).

Tax and Revenue Anticipation Notes (TRANS) - Notes issued in anticipation of receiving tax proceeds or other revenues at a future date.

Time Certificate of Deposit - A non-negotiable certificate of deposit that cannot be sold prior to maturity.

Total Return - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return

Treasury Bonds (also known as T-bonds) - U.S. Treasury long-term obligations, direct obligations of the U.S. Government, generally mature in 10 years or more.



Trustee or trust company or trust department of a bank - A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

U.S. Government Agencies – the term used to describe the instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular Agency.

U.S. Treasury Obligations - Debt obligations of the United States Government sold by the Treasury Department in the forms of Bills, Notes, and Bonds. **Bills** are short-term obligations that mature in 1 year or less and are sold on the basis of a rate of discount. **Notes** are obligations that mature between 1 year and 10 years. **Bonds** are long-term obligations that generally mature in 10 years or more.

Weighted Average Maturity (WAM) - The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

Yield - The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity - The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.