

# The City of Rosemead

## Investment Policy

### Fiscal Year 2016-17

#### I. Investment Philosophy

##### A. Policy

1. This investment policy is set forth by the City of Rosemead (the City) for the following purposes:
  - a. To establish a clear understanding for the City Council, the Finance Committee, 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 team members and any external investment advisors on the investment of City funds.
  - c. To establish a basis for evaluating investment results.
2. The City establishes investment policies which meet its current investment goals. The City shall review this policy annually, and may change its policies more frequently as its investment objectives change.

##### B. Objectives

The objectives of this policy are, in order of priority:

1. To ensure the safety of the invested funds in compliance with all Federal, State and local laws governing the investment of moneys under the control of the City Treasurer.
2. To maintain sufficient liquidity to meet cash flow needs.
3. To attain a "market average rate of return" consistent with primary objectives of safety and liquidity. The expected rate of return on the City's portfolio is more specifically defined in Section IV.

##### C. Prudence

1. The Prudent Investor Standard shall be used by investment officials, and shall be applied in the context of managing an overall portfolio. Investment staff acting in accordance with written procedures and the investment policy 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 within 30 days and appropriate action is taken to control adverse developments.

2. The 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 this chapter 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 investor acting in a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part to an overall strategy, a trustee is authorized to acquire investments as authorized by law.

- D. State law, City statutes and City personnel and purchasing policies shall be followed to avoid conflict of interest or the appearance thereof. In addition to the applicable requirements of the Political Reform Act and the Government Code Section 1090, the City Treasurer and City Manager, members of the City Council, members of the Finance Committee, their spouses and investment consultants 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 on behalf of the City. In addition, these individuals shall disclose to the City Manager any financial interests in or financial relationships with financial institutions that conduct business with the City, and shall subordinate their personal investment transactions to those of the City's, particularly with regard to the timing of purchases and sales. Unless otherwise prohibited by State law, City statutes, policies or regulations, it is permissible for the City to purchase securities from firms in which members of the Finance Committee are officers, partners, members, or employees, provided that: (1) multiple bids are obtained for such purchases; (2) the affected member abstains from participation in the recommendation of the Finance Committee as to the firm with which the member has an employment or ownership relationship; (3) the member's relationship to the securities firm is stated in the minutes of the Finance Committee; and (4) the affected member of the Finance Committee does not participate in the sale of securities to the City as an officer, partner, member, or employee of the securities firm; and (5) the firm meets the requirements of Section II. C. of this Investment Policy. All bond issue providers including but not limited to underwriters, bond counsel, financial advisors, brokers and dealers, will disclose any fee sharing arrangements or fee splitting to the City Manager prior to the execution of any transactions. The providers must disclose the percentage share and approximate dollar amount share to the City prior to the execution of any transactions.

## II. Operational and Procedural Matters

### A. Scope

This investment policy applies to all financial assets and investment activities of the City except for proceeds of debt issuance. Debt proceeds shall be invested in accordance with the investment objectives of the City as set forth in this policy; however, such proceeds are invested in accordance with permitted investment provisions of their specific bond indentures. All deviations from investments authorized in this policy for other City funds shall be disclosed to the City Council at the time bond documents are considered for approval. Proceeds of debt issuance shall be subject to the operational and reporting requirements of this policy.

### B. Delegation and Authority

1. Authority to manage the City's investment program is derived from the California Government Code Sections 53600 *et seq.*
2. The City of Rosemead Municipal Code, Chapter 2.16.010, authorizes the City Treasurer to invest funds in accordance with California Government Code Section 53600 *et seq.* The Treasurer shall be responsible for all transactions undertaken by the City's internal staff, and shall establish a system of controls to regulate the activities of internal staff and external investment advisors engaged in accordance with Section II B (5).
3. In the absence of the City Treasurer, the investment responsibilities are hereby delegated to the Director of Finance.
4. In the absence of both the City Treasurer and the Director of Finance the City Manager has that responsibility
5. The City Council may, upon recommendation of the Finance Committee, 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. Such external managers may be granted limited discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940, or be exempt from such registration. Such external managers shall be prohibited from 1) selecting broker/dealers, 2) executing safekeeping arrangements, and 3) executing wire transfers. This Section does not preclude the City Treasurer from retaining portfolio consultants within existing authority.

C. Authorized Financial Dealers and Institutions

1. The Treasurer will maintain a list of financial institutions authorized to provide investment services to the City. Institutions eligible to transact investment business with the City include:
  - a. Primary government dealers as designated by the Federal Reserve Bank,
  - b. Nationally or state-chartered banks,
  - c. The Federal Reserve Bank, and
  - d. Direct issuers of securities eligible for purchase by the City.
2. Selection of financial institutions and broker/dealers authorized to engage in transactions with the City shall be at the sole discretion of the City.
3. The Treasurer and the Finance Committee 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 Rosemead Investment Policy. Investment accounts with all financial institutions shall be standard non-discretionary accounts and may not be margin accounts.
4. All financial institutions which desire to become qualified bidders for investment transactions must supply the Treasurer with the following:
  - a. Audited financial statements for the institution's three most recent fiscal years.
  - b. At least three references from California local agencies whose portfolio size, investment objectives and risk preferences are similar to the City's.
  - c. A statement certifying that the institution has reviewed the California Government Code Section 53600 *et seq.* and the City's Investment Policy and that all securities offered to the City shall comply fully and in every instance with all provisions of the California Government Code.
5. The signatures of two individuals shall be required for the opening and closing of any bank account and broker account (the Treasurer or City Manager, and the Mayor or Mayor Pro Tem). The Accounting Manager, who is independent of the investment function, shall keep a record of all opened and closed accounts.

On an annual basis, the Accounting Manager shall provide this list of accounts to the City's independent auditor.

6. 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, or, to the extent the amount exceeds the insured maximum, shall be collateralized with securities in accordance with State law.
7. Whenever possible, investment staff shall obtain a minimum of two quotations, preferably three, prior to entering into an investment transaction. Staff will buy or sell at the price that is most advantageous to the City and meets investment requirements.

D. Delivery vs. Payment

All investment transactions of the City shall be conducted using standard delivery-vs.-payment procedures.

E. Safekeeping of Securities

To protect against potential losses by collapse of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, 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 by the City.

From time to time, the City may invest funds received late in the day in one to thirty day repurchase agreements with its depository bank. Securities used as collateral for such repurchase agreements may be held in safekeeping by the City's depository bank.

Investments are to be held in the City's name in conjunction with industry standards, including collateral held for repurchase agreements by depository banks.

III. Permitted Investments and Portfolio Risk Management

- A. Investments authorized for purchase by City staff. All investments shall be made in accordance with Sections 53600 *et seq.* of the Government Code of California and as described within this Investment Policy. Limits identified are to be based on the "market value" of the investment. Permitted investments under this policy include:

1. Securities issued by the US Treasury, provided that there shall be no maximum allowable investment in US Treasury securities.

2. Securities issued and backed as to payment by one of the following Government Sponsored Entities (GSE's): the Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association, provided that
  - a. A maximum of the greater of \$14 million or 70% of the portfolio be invested in agency securities, and
  - b. No more than the greater of \$7 million or 35% of the portfolio be invested in securities issued by any single agency.
  - c. Investment in mortgage-backed bonds and collateralized mortgage obligations (CMOs) is prohibited, even if such bonds are issued by agencies of the US Government.
3. Banker's Acceptances provided that:
  - a. They are issued by domestic institutions the short-term obligations of which are rated a minimum of P1 by Moody's Investor Services (Moody's) or A1 by Standard & Poor (S&P).
  - b. The acceptance is eligible for purchase by the Federal Reserve System.
  - c. The maturity does not exceed 180 days.
  - d. No more than the greater of \$4 million or 20% of the total portfolio may be invested in banker's acceptances, and
4. Time deposits (Negotiable certificates of deposit) in nationally or state-chartered banks, a savings association or a federal association (as defined by Section 5102 of the Financial Code) in excess of insured amounts which are fully collateralized with securities in accordance with California law, or that are federally insured provided that:
  - a. No more than 30% of the portfolio shall be invested in a combination of federally insured and collateralized time deposits, and
  - b. The federally insured and/or collateralized time deposits are issued by institutions which have long-term debt rated "A" or higher by S&P or "A2" or higher by Moody's; and/or have short-term debt rated A1 by S&P or P1 by Moody's.
  - c. The maturity of such deposits does not exceed five years.

5. Commercial paper, provided that:
  - a. The maturity does not exceed 180 days from the date of purchase.
  - b. The issuer is a corporation organized and operating in the United States with assets in excess of \$500 million.
  - c. The paper is rated a minimum of P1 by Moody's and A1 by S&P, and has a minimum long-term credit rating of A by both rating agencies.
  - d. No more than 15% of the portfolio is invested in commercial paper.
6. State of California Local Agency Investment Fund (LAIF), provided that:
  - a. LAIF investments in instruments prohibited by or not specified in the City's policy do not exclude it from the City's list of allowable investments, provided that the fund's reports allow the Treasurer to adequately judge the risk inherent in LAIF's portfolio, and provided that disclosure of such investments, if any, is made annually to the City Council.
7. Medium-Term Corporate Notes
  - a. Must be rated "A" or better by a nationally recognized rating service.
  - b. Investment in these securities shall not exceed \$2 million.
  - c. The maximum stated final maturity of these securities shall be five years.
8. From time to time, the investment strategy may be to capture high yields with the purchase of safe, low risk, highly liquid investments. Government Code Section 53601 states: "... no investment shall be made in any security ... that at the time of investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment." Accordingly and in addition to the Government Code, investments with remaining maturities in excess of five years, the following requirements must be met:
  - a. The security must be a U.S. Treasury Note or bond, a Federal National Mortgage Association (FNMA) debenture or Federal Home Loan Bank (FHLB) debenture.

- b. A maximum of twenty-five (25) percent of the City's funds can be invested in securities with a term remaining to maturity of between five and seven years.
- c. No securities may be purchased by the City of Rosemead or the Rosemead Community Development Commission (RCDC) with a term remaining to maturity in excess of five years without approval of the City Council or the RCDC no less than three months prior to the investment.

**B. Prohibited Investment Vehicles and Practices**

- 1. State law notwithstanding, any investments not specifically described herein including, but not limited to, medium-term corporate notes, mutual funds, other than government money market funds, unregulated and/or unrated investment pools or trusts, except as specified above, futures and options, strips, except for federal agency strips, variable rate securities and securities with embedded options.
- 2. Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
- 3. Purchasing or selling securities on margin is prohibited.
- 4. The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.
- 5. Borrowing for investment purposes is prohibited.

**C. Investments and practices permitted for use by external investment managers.**

- 1. Professional investment managers that may be retained by the City may request more latitude in their choice of investment vehicles and practices than is allowed under this policy. As an integral part of their service to the City, such advisers shall recommend additional investment vehicles and practices, with limitations and restrictions on their use. The City Council must approve the investment vehicles and practices, upon the recommendation of the Finance Committee, and adopt an appropriate amendment to this policy prior to their implementation.

**D. Mitigating Credit Risk in the Portfolio**

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to real or perceived change in the ability of the issuer to repay its debt. The City shall mitigate credit risk by adopting the following strategies:

1. The diversification requirements included in Section III (A) are designed to mitigate credit risk in the portfolio.
2. No more than the greater of \$1 million or 5% of the total portfolio may be invested in securities of any single issuer, except that limits on investment securities issued by government agencies shall be governed by Section III A 2 b. Limits are to be based on the “market value” of the investment.
3. The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or the City’s risk preferences.
4. If securities owned by the City are downgraded by either Moody’s or S&P to a level below the quality required by this Investment Policy, it shall be the City’s policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.
  - a. If a security is downgraded two grades below the level required by the City, the security shall be sold immediately.
  - b. If a security is downgraded one grade below the level required by this policy, the Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the loss in value, the economic outlook for the issuer, and other relevant factors.
  - c. If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the City Manager and City Council.

E. Mitigating Market Risk in the Portfolio

Market risk is the risk that the portfolio will decline in value (or will not optimize its value) due to changes in the general level of interest rates. The City recognizes that, over time, longer-term portfolios achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The City shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making some longer-term investments only with funds which are not needed for cash flow purposes. The City further recognizes that certain types of securities, including variable rate securities, securities with principal pay downs prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The City, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

1. The maximum stated final maturity of individual securities in the portfolio shall be five years.
2. The City shall maintain a minimum of one month of projected capital and operating expenditures (excluding expenditures financed with bond proceeds) in investments maturing within thirty days.
3. To the extent necessary, investment maturities shall match the City's projected cash flow requirements over the following twelve months.
4. Except for calls, the City shall invest only in securities which do not include embedded options (i.e. puts, swaps, etc.).
5. The City shall not invest in securities which may return all or part of their principal prior to their stated final maturity date more than four times in any 12 consecutive month period.
6. The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to change the portfolios exposure to market risk.
7. In order to minimize the need to sell securities prior to their stated maturity, and to eliminate reliance on interest rate forecasting, the City shall structure its investment portfolio as a maturity ladder. Funds not required for purposes of meeting cash flow needs (see Section III E 2-3) shall be invested in permitted securities with the objective of maintaining the average duration of the portfolio in line with the duration of the Benchmark Index.

#### IV. Specific Objectives and Expectations

- A. Overall objective. The investment portfolio shall be designed with the overall objective of obtaining a total rate of return throughout economic cycles, commensurate with investment risk constraints and cash flow needs.
- B. Specific objective. The investment performance objective for the portfolio shall be to earn a total rate of return over a market cycle which is approximately equal to the return on the Benchmark Index. The Benchmark Index, an index with characteristics similar to those of the portfolio in terms of types of securities and maturities, will be set at the beginning of each year. In addition, an index comprised of U.S. Treasury securities with a maturity distribution similar to that of the Benchmark Index will be presented for comparison purposes.

V. Reporting, Disclosure and Program Evaluation

A. Quarterly Reports

Quarterly investment reports shall be submitted by the Finance Director to the Finance Committee within 30 days of the last day of the quarter. These reports shall disclose information about the risk characteristics of the City's portfolio and shall include:

1. Treasurer's Quarterly Report cover page:
  - a) Cash receipts, disbursements and balances in total,
  - b) a summary of the portfolio at quarter-end,
  - c) information regarding interest earnings,
  - d) a statement of compliance with investment policy, including a schedule of any transactions or holdings which do not comply with this policy or with the California Government Code, including a justification for their presence in the portfolio and a timetable for resolution,
  - e) a statement of the City's ability to meet its expenditure requirements for the next six months,
  - f) cost and market value of the portfolio,
  - g) sector allocation.
2. One-page summary report of portfolio characteristics including modified duration of the portfolio and the benchmark index, average maturity, maturity distribution in years, average yield and time weighted total rate of return.
3. Graphical comparison of the portfolio composition and maturity distribution information for the current month compared to the prior month.
4. Reconciliation of cash disbursements.
5. Listing of individual investment transactions during the month as required by Government Code Section 53607.
6. An asset listing showing par value, cost and accurate and complete market value of each security, type of investment, issuer, maturity date and interest rate.

B. Annual Reports

1. The investment policy shall be reviewed and adopted at least annually within the first 90 days of each fiscal year to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.
2. A comprehensive annual financial report for the prior fiscal year shall be presented in conjunction with the investment policy review. This report shall include comparisons of the City's return to the Benchmark Index return, shall suggest policies and improvements that might enhance the investment program, and shall include an investment plan for the coming year.

C. Internal Controls

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity 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: control of collusion, separation of transaction authority from accounting and record keeping, safekeeping of assets and written confirmation of telephone transactions for investments and wire transfers.

D. Annual Audit

The Finance Director shall establish an annual process of independent review by an external auditor to assure compliance with internal controls in coordination with the City's annual financial audit.

E. Special Audits

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

F. Independent Investment Advisor

In its discretion, the City Council may retain the services of an independent investment adviser to review the investment program from time to time. The adviser will review compliance with policies and procedures, independently calculate the market value of the City's holdings, report on overall portfolio risk exposure and investment results, and make recommendations, if needed, regarding investment strategy, risk, or any aspect of the investment program.

G. Finance Committee (RMC § 2.36)

Responsibilities

It shall be the responsibility of the Finance Committee to:

1. Oversee the implementation of the City's investment program, assuring its consistency with the investment policy and recommend changes to the investment policy for consideration by the City Council.
2. Receive and review the quarterly investment reports described in Section V (A) at their quarterly meetings.
3. Approve the lists of authorized banks, dealers, brokers and direct issuers used by the City, as well as any additions to or deletions from such lists.
4. Review the City's portfolio activity and performance for suitability and compliance with this policy.
5. Make recommendations to the Finance Director regarding portfolio activity, performance and compliance with this policy.
6. Make recommendations to the City Council regarding the hiring of external managers and permitted investments and investment strategies for such external managers.
7. Make recommendations to the City Council and the RCDC Commissioners regarding the use of specific local agency investment pools.
8. Inform the City Council of unaddressed concerns with the management of the City's investment portfolio.

## GLOSSARY OF INVESTMENT TERMS

**Agencies** — Agencies of the Federal government set up to supply credit to various classes of institutions (e.g., S &Ls, small business firms, students, farmers, housing agencies, etc.)

**Asked** — The price at which securities are offered.

**Bankers Acceptance (BA)** — A draft, 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 comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

**Bid** — Price a prospective buyer is ready to pay.

**Broker/Dealer** — Individual or firm acting as principal in securities transaction.

**Callables** — Securities that the issuer has the right to redeem prior to maturity.

**Certificates of Deposit (CD)** — A time deposit with a specific maturity evidenced by a certificate.

**Collateral** — Securities pledged to secure repayment of a loan.

**Comprehensive Annual Financial Report (CAFR)** — An official annual financial report. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material and a detailed statistical section.

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

**Custody** — A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

**Debenture** — A bond secured only by the general credit of the issuer.

**Delivery vs. Payment** — There are two methods of delivery of securities: Delivery versus payment and delivery versus receipt. Delivery versus payment is

delivery of securities with a simultaneous exchange of money. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**Derivatives** — a) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor; b) Financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

*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., U.S. Treasury Bills.

**Diversification** — Dividing investment funds among a variety of securities offering independent returns.

**Executive Finance Committee** — A committee chaired and appointed by the City Treasurer to oversee the day-to-day investment program of the City.

*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 \$250,000.00 per deposit.

*Federal Funds Rate* — The rate of interest associated with borrowing a Federal Reserve bank's excess reserves. This rate is currently pegged by the Federal Reserve through open-market operations.

**Federal Home Loan Banks (FHLB)** — overnment sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banking services to member commercial banks, draft institutions, credit unions and insurance companies. The mission of FHLB's is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

**Federal National Mortgage Association (FNMA)** — A publicly owned government sponsored corporation chartered in 1938 to purchase mortgages from lenders and resell them to investors. FNMA is a federal corporation working under the auspices of the Department of Housing (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.

**Federal Open Market Committee (FOMC)** — a committee that sets interest rate and credit policies for the Federal Reserve System, the United States' central

bank. The FOMC has 12 members. Seven are the members of the Federal Reserve Board, appointed by the president of the United States. The other five are presidents of the 12 regional Federal Reserve banks. Of the five, four are picked on a rotating basis; the other is the president of the Federal Reserve Bank of New York, who is a permanent member. The committee decides whether to increase or decrease interest rates through open market operations of buying or selling government securities. The committee's decisions are closely watched and interpreted by economists and stock and bond market analysts, who try to predict whether the Fed is seeking to tighten credit to reduce inflation or to loosen credit to stimulate the economy.

**Federal Reserve System** — System established by the Federal Reserve Act of 1913 to regulate the U.S. monetary and banking system. The Federal Reserve System (the Fed) is comprised of 12 regional Federal Reserve Banks, their branches, and all national and state that are a part of the system. The Federal Reserve System's main functions are to regulate the national money supply, set reserve requirements for member banks, supervise the printing of currency at the mint, act as clearinghouse for transfer of funds throughout the banking system, and examine member banks to make sure they meet various Federal Reserve regulations.

**Government National Mortgage Association (GNMA or Ginnie Mae)** — Government-owned corporations, nicknamed Ginnie Mae, which is an agency of the U.S. Department of Housing and Urban Development. Security holder is protected by full faith and credit of the U.S. government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term "pass throughs" is often used to describe Ginnie Maes.

*Intermediate Maturity* — Investment period greater than one year but less than five years and one day.

**Finance Committee** — A committee chaired by the City Treasurer to advise the City Treasurer on policies governing the City's investment program.

**Liquidity** — The ability to turn an asset into cash. The ability to buy or sell an asset quickly and in large volume without substantially affecting the asset's price.

*Local Agency Investment Fund (LAIF)* — The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**Long-Term Maturity** — Investment period greater than five years.

**Long-Term Investment** — Maturity on investment greater than five years, as of the date of purchase.

**Market Value** — The price at which a security is trading, usually the liquidation value.

**Master Repurchase Agreement** — A written contract covering all future transactions between the parties to repurchase---reverse repurchase agreements that establish each party's rights in the transactions. A master repurchase

agreement will often specify 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.

**Money Market** — The market in which short-term debt instruments (Treasury bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

**Offer** — Price at which someone who owns a security offers to sell it, also known as the asked price.

**Open Market Operations** — Activities by which the Securities Department of the Federal Reserve Bank of New York, popularly called the desk, carries out instructions of the Federal Open Market Committee designed to regulate the money supply. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**Portfolio** — Collection of securities held by an investor.

**Primary Dealer** — Investment dealers authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its execution of Fed Open Market Operations. Such dealers must be qualified in terms of reputation, capacity, and adequacy of staff and facilities.

**Prudent Person Rule** — Standard adopted by some U.S. states to guide those with responsibility for investing money of others. Such fiduciaries, such as trustees, must act as a prudent man or woman would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments. States not using the prudent-man system use the *legal list* system, allowing fiduciaries to invest only in a restricted list of securities, called the *legal list*.

**Qualified Investment** — An investment instrument (such as an insured certificate of deposit of \$100,000 with California chartered savings and loan) which is approved by this policy or pursuant to procedures set forth in this policy.

**Range Note** — An investment instrument that pays a high interest rate, if a given index falls within a stipulated range, but pays no interest if the stipulated index falls outside that range.

**Rate of Return** — The yield obtainable on security based on its purchase price or its current market price.

**Repurchase Agreement (RP or REPO)** — Agreement between a seller and a buyer, usually of U.S. government securities, whereby the seller agrees to repurchase the securities as an agreed upon price and usually, at a stated time. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: when the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

**Required Reports** — Sections 53600 et seq. of the Government Code specify that certain information be transmitted to the City's governing body and chief executive officers by the City's chief fiscal or investment officer periodically.

**Safety** — The ability of a security issuer to guarantee redemption of their security.

**Safekeeping** — see custody

**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.

**SEC Rule 15C3-1** — See Uniform Net Capital Rule.

**Short-term Maturities** — Investment period of one year or less.

**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 Bonds** — Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

**Treasury Notes** — Medium-term coupon bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to ten years.

**Uniform Net Capital Rule** — Securities and Exchange Commission requirement that member firms as well as nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members.

**Yield** — Percentage rate of interest received versus the purchase price of the instrument if held to maturity.