



CITY COUNCIL STAFF REPORT

DATE: October 2, 2013 CONSENT CALENDAR

SUBJECT: ADOPT THE CITY'S INVESTMENT POLICY GOVERNING THE INVESTMENT OF CITY FUNDS

FROM: David H. Ready, City Manager

BY: Department of Finance and Treasury

SUMMARY

The State Government Code requires that when a City to has an approved Investment Policy, that it should be reviewed annually. If changes are appropriate or required, then the policy may be submitted by the City Treasurer to the City Council for their approval. The City has had an investment policy since 1985. There are two changes being recommended from the current policy. One change is a minor change conforming our City's investment policy to the latest version of the applicable State law regarding investments. The second change involves adding a social responsibility evaluation as an additional step in staff's decision-making process regarding investments.

RECOMMENDATION:

1. Adopt Resolution No. _____, "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM SPRINGS, CALIFORNIA, ADOPTING AN INVESTMENT POLICY GOVERNING THE INVESTMENT OF CITY FUNDS."

STAFF ANALYSIS:

The City of Palm Springs has had an investment policy since 1985. The Director of Finance & Treasurer regularly reviews Government Code for changes to the law which would require a change to the City's investment policy. The policy being considered by Council is the same as the current policy, with two changes as noted below.

The City of Palm Springs has an excellent record on the safety of its investments. There has never been a cash flow or liquidity problem. The portfolio has a normal investment turnover, and based upon the range of investment choices available to the City per our investment policy, earns a reasonable yield. If for some reason the portfolio needed to be liquidated, the current market value is virtually the same as cost.

The first recommended change is purely technical. The investment policy has provided the framework for meeting the City's goals of Safety, Liquidity and Return on Investment, and should continue to do so into the foreseeable future. The recommended minor wording change to City Investment Policy section 8.0.J. regarding investments in money market funds will put the City's policy in conformity to the latest version of state law. The new state law specifies that investments in a mutual fund should be done only if they have five or more years of experience and they have at least \$500 million in assets under management.

The second recommended change adds the new Section 8.2, Social Responsibility. This new section of the policy consists of an evaluation of the social responsibility of underlying companies as staff is considering the investment of City funds in corporate securities. This evaluation will be conducted while maintaining the City's primary investment objectives of safety, liquidity, and return on investments. Staff has reviewed the wording in the investment policies of five California cities (San Francisco, Berkeley, West Hollywood, Santa Monica, and Richmond) that have social responsibility features in their investment policy, and staff is recommending adding the Section 8.2 to our City's investment policy. This policy change requires, to the extent such socially responsible investments meet the minimum requirements of state law and other factors, the investment of City funds in entities that support equality of rights regardless of race, religion, color, creed, national or ethnic origin, age, sex, sexual orientation, or physical disability. Prior to making investments, the Treasurer's office will reasonably verify an entity's support of the socially responsible goals through listed above through direct contact or through the use of a third party resource.

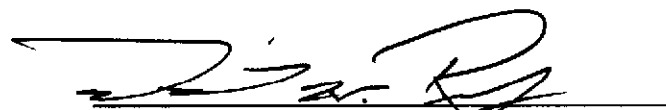
The policy has been reviewed by the City Attorney's Office.

FISCAL IMPACT:

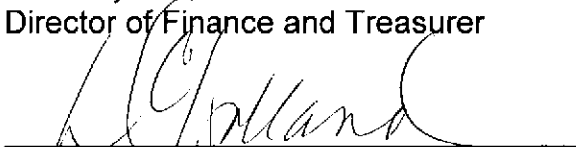
None



Geoffrey S. Kiehl
Director of Finance and Treasurer



David H. Ready, City Manager



Douglas Holland
City Attorney

Attachments:

City of Palm Springs Investment Policy and Resolution

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE
CITY OF PALM SPRINGS, CALIFORNIA,
ADOPTING AN INVESTMENT POLICY GOVERNING
THE INVESTMENT OF CITY FUNDS.

WHEREAS, Section 53646 (a)(1) of the State of California Government Code requires that an investment policy is annually rendered to and considered by the City Council in a public meeting; and

WHEREAS, the City Treasurer has prepared an investment policy which meets the standards delineated in the California Debt Advisory Commission's report on Local Agency Investment Guidelines; and

WHEREAS, the current investment policy was reviewed by the City Attorney; and

WHEREAS; the comments and suggestions of the City Attorney were incorporated into the current Investment Policy document before Council; and

WHEREAS, the current Investment Policy describes the City's commitment to safeguarding its funds;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Palm Springs, that the Investment Policy recommended is hereby adopted.

ADOPTED THIS 2nd day of October, 2013.

David H. Ready, City Manager

ATTEST:

James Thompson, City Clerk

CERTIFICATION

STATE OF CALIFORNIA)
COUNTY OF RIVERSIDE) ss.
CITY OF PALM SPRINGS)

I, JAMES THOMPSON, City Clerk of the City of Palm Springs, hereby certify that Resolution No. _____ is a full, true and correct copy, and was duly adopted at a regular meeting of the City Council of the City of Palm Springs on October 2, 2013, by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

James Thompson, City Clerk
City of Palm Springs, California

CITY OF PALM SPRINGS INVESTMENT POLICY

1.0 POLICY

WHEREAS; The Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (California Government Code Sections 53600.6 (CGC §53600.6) and 53630.1); and

WHEREAS; the legislative body of a local agency may invest surplus monies not required for the immediate necessities of the local agency in accordance with the provisions of California Government Code Sections 53601 et seq; and

WHEREAS; the treasurer of the City of Palm Springs shall annually prepare and submit a statement of investment policy and such policy, and any changes thereto, shall be considered by the legislative body at a public meeting; (CGC §53646 (a); now

THEREFORE; it shall be the policy of the City of Palm Springs to invest funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all statutes governing the investment of City of Palm Springs funds.

2.0 SCOPE

This investment policy applies to all financial assets of the City of Palm Springs and its component units. These funds are accounted for in the Comprehensive Annual Financial Report and include, but are not limited to:

- General Fund
- Special Revenue Funds
- Capital Projects Fund
- Debt Service Fund
- Enterprise Funds
- Internal Service Funds
- Trust and Agency Funds
- Community Redevelopment Funds
- Proceeds from Bond Issues (see 8-2 8.3)

Contributions made by or on behalf of employees to Deferred Compensation accounts are not covered by this policy.

3.0 PRUDENCE

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent investor" standard (CGC §53600.3) and shall be applied in the context of managing an overall

portfolio. Investment officers 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 in a timely fashion and appropriate action is taken to control adverse developments.

4.0 OBJECTIVES

As specified in CGC §53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City of Palm Springs shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
2. **Liquidity:** The investment portfolio will remain sufficiently liquid to enable the City of Palm Springs to meet all operating requirements which might be reasonably anticipated.
3. **Return on Investments:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

5.0 DELEGATION OF AUTHORITY

Authority to manage the investment program is derived from California Government Code Sections 53600 et. seq. Management responsibility for the investment program is hereby delegated to the Treasurer, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include references to: wire transfer agreements, and collateral/depository agreements, as appropriate. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Under the provisions of California Government Code 53600.3, the Treasurer is a trustee and a fiduciary subject to the prudent investor standard.

6.0 ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

7.0 AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Treasurer will maintain a list of financial institutions, selected on the basis of credit worthiness, financial strength, experience and minimal capitalization, authorized to provide investment services to the City of Palm Springs. No public deposit shall be made except in a qualified public depository as established by state laws.

For broker/dealers of government securities and other investments, the City of Palm Springs shall select only broker/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the Treasurer shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for the City of Palm Springs' account with that firm has reviewed the City of Palm Springs' Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the City of Palm Springs that are appropriate under the terms and conditions of the Investment Policy.

8.0 AUTHORIZED AND SUITABLE INVESTMENTS

The City of Palm Springs is empowered by California Government Code 53601 et seq. to invest in the following:

- A. Bonds issued by the City of Palm Springs
- B. United States Treasury Bills, Notes & Bonds
- C. Registered state warrants or treasury notes or bonds issued by the State of California.
- D. Bonds, notes, warrants or other evidence of debt issued by a local agency within the State of California, including pooled investment accounts sponsored by the State of California, County Treasurers, other local agencies or Joint Powers Agencies.
- E. Obligations issued by Agencies or sponsored enterprises of the U.S. Government. Not more than 60% of surplus funds may be invested in these obligations.
- F. Bankers Acceptances with a term not to exceed 180 days. Not more than 40% of surplus funds can be invested in Bankers Acceptances and no more than 20% of surplus funds can be invested in the bankers' acceptances of any single commercial bank.
- G. Prime Commercial Paper of U.S. Corporations with assets greater than \$500 million with a term not to exceed 270 days and the highest ranking issued by Moody's Investors Service or Standard & Poor's Corp. Commercial paper cannot exceed 15% of total surplus funds.
- H. Negotiable Certificates of Deposit issued by federally or state chartered banks or associations. Not more than 30% of surplus funds can be invested in negotiable certificates of deposit.

I. Medium term notes (not to exceed 5 Years) of US corporations rated "A" or better by Moody's or S&P. Not more than 20% of surplus funds can be invested in medium term notes.

J. Shares of beneficial interest issued by diversified management companies (Money Market Mutual Funds) with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (o), inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000). ~~Section 53601 (K).~~ Such Funds must carry the highest rating of at least two of the three largest national rating agencies. Not more than 10% of surplus funds can be invested in Money Market Mutual Funds.

K. Funds held under the terms of a Trust Indenture or other contract or agreement may be invested according to the provisions of those indentures or agreements.

L. Collateralized bank deposits with a perfected security interest in accordance with the Uniform Commercial Code (UCC) or applicable federal security regulations.

M. Any mortgage pass-through security, collateralized mortgage obligation, mortgaged backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable backed bond of a maximum maturity of five years. Securities in this category must be rated AA or better by a nationally recognized rating service. Not more than 10% of surplus funds may be invested in this category of securities.

N. The various limits on what percentage of surplus funds (the Percentage of Portfolio, or POP limits) may be invested by type or maturity shall be calculated when the investment or reinvestment is made.

Also, see CGC §53601 for a detailed summary of the limitations and special conditions that apply to each of the above listed investment securities. CGC §53601 is attached (Exhibit B) and included by reference in this investment policy.

8.1 PROHIBITED INVESTMENTS

Under the provisions of CGC §53601.6 and §53631.5, the City of Palm Springs shall not invest any funds covered by this Investment Policy in inverse floaters, dual index, stepped inverse derivatives, repurchase agreements, reverse repurchase agreements, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity.

8.2 SOCIAL RESPONSIBILITY

The City shall not knowingly make any investments in any institution, company, corporation, subsidiary, or affiliate that practices or supports directly or indirectly through its actions, discrimination on the basis of race, religion, color, creed, national or ethnic origin, age, sex, sexual orientation, or physical disability, as this is not in accordance with the City of Palm Springs policies regarding discrimination.

Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regarding race, religion, color, creed, national or ethnic origin, age, sex, sexual orientation, or physical disability. Investments should be made to the extent reasonable under the circumstances that such socially responsible investments meet minimum permitted requirements by state law, and achieve substantially equivalent safety, liquidity, and yield when compared to similar investments permitted by state law.

Prior to making investments, the Treasurer's office will reasonably verify an entity's support of the socially responsible goals listed above through direct contact or through the use of a third party resource.

8-28.3 BOND PROCEEDS

In addition to the investment vehicles enumerated in Section 8, the proceeds of bond issues (including reserve funds) may be invested in long term Guaranteed Investment Contracts (GIC) or Investment Agreements (IA) that comply with the Permitted Investment restrictions of the particular bond issue.

Before soliciting bids from providers of GIC's or IA's, the Treasurer shall obtain approval from the City Council to proceed.

9.0 INVESTMENT POOLS/MONEY MARKET MUTUAL FUNDS

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is 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, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

10. COLLATERALIZATION

All certificates of deposits must be collateralized by U.S. Treasury Obligations or U.S. Government Agency Securities. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest. Collateral must be held by a third party trustee and valued on a monthly basis.

11. SAFEKEEPING AND CUSTODY

All security transactions entered into by the City of Palm Springs shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

12. DIVERSIFICATION AND MAXIMUM MATURITIES

The City of Palm Springs will diversify its investments by security type and institution. It is the policy of the City of Palm Springs to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically. In establishing specific diversification strategies, the following general policies and constraints shall apply:

- (a) Portfolio maturities shall be matched versus liabilities to avoid undue concentration in a specific maturity sector.
- (b) Maturities selected shall provide for stability of income and liquidity.
- (c) Disbursement and payroll dates shall be covered through maturities investments, marketable U.S. Treasury bills or other cash equivalent instruments such as money market mutual funds.

Specifically, the following amounts or percentages of the total portfolio for the maturities noted shall be maintained:

<u>Maturity Range</u>	<u>Minimum</u>	<u>Maximum</u>
1 days to 365 days	\$8,000,000	NA
1 year to 3 years	0%	50%
3 years to 5 years	0%	30%
Over 5 years	Council Action Required	

The weighted average maturity of the pooled portfolio shall not exceed three years (1,095 days). The maximum amounts or percentages may be adjusted to reflect the anticipated shorter duration of certain investments that may likely be called prior to their stated date of maturity.

13. STRATEGY OF INVESTMENTS

It shall be the strategy of the City of Palm Springs to hold investments to maturity. If, because of changing market conditions or the City's cash flow needs, it becomes necessary to sell an investment prior to maturity (either at a profit or loss), the Treasurer shall first obtain written approval for the transaction from the City Manager. The City Manager shall inform the Mayor and City Council of the transaction at the earliest opportunity, but no later than the next regularly scheduled Council meeting or study session.

14. OVERSIGHT COMMITTEE

A committee comprised of one Council member appointed by Council, the City Manager and the Treasurer, shall provide oversight of the City's investments. The Committee shall meet at least quarterly to review the City's investment activity.

15. REPORTING

In accordance with CGC §53646(b)(1), Treasurer shall submit to each member of the City Council monthly investment reports within 30 days of the end of the quarter in which the month falls. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for City of Palm Springs by Fiscal Agents, Deferred Compensation Plan Provider (except Deferred Comp funds held in trust) or third party contracted managers. The report will also include the source of the portfolio valuation, and the changes in the value of each investment over the last quarter. As specified in CGC §53646(e), if all funds are placed in LAIF, FDIC-insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions, including changes in value over the last quarter. The report must also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the Investment Policy and, (2) the City of Palm Springs will meet its expenditure obligations for the next six months as required by CGC §53646(b)(2) and (3) respectively. The Treasurer shall maintain a complete and timely record of all investment transactions.

16. INVESTMENT POLICY ADOPTION

The Investment Policy shall be adopted by resolution of the City of Palm Springs City Council. The Policy shall be reviewed on an annual basis, and modifications approved by the City Council.

17. GLOSSARY

Definition of investment-related terms are listed on Exhibit A.

EXHIBIT A

GLOSSARY

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASKED: The price at which securities are offered.

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

BASIS POINT: One-hundredth of one percent (i.e., 0.01%).

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

BROKER: A broker acts as an intermediary between a buyer and seller for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER: Short-term, unsecured, negotiable promissory note with a fixed maturity of no more than 270 days. By statute, these issues are exempt from registration with the U.S. Securities and Exchange Commission.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual financial report for the City. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

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.

CREDIT RISK: The risk that an obligation will not be paid and a loss will result.

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

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

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

Exhibit A - Glossary

with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) 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, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DIRECT ISSUER: Issuer markets its own paper directly to the investor without use of an intermediary.

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. 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 at 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.

DURATION: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates over a period of time. Duration is expressed by a number of years. Stagnant or falling interest rates may result in the duration of an investment being shorter than the stated date to maturity.

FACE VALUE: The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

FAIR VALUE: The amount at which a security could be exchanged between willing parties, other than in a forced or liquidation sale. If a market price is available, the fair value is equal to the market value.

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 \$100,000 per deposit.

FEDERAL FARM CREDIT BANK (FFCB): Government-sponsored institution that consolidates the financing activities of the Federal Land Banks, the Federal Intermediate Credit Banks and the Banks for Cooperatives. Its securities do not carry direct U.S. government guarantees.

FEDERAL FUNDS RATE: The rate of interest at which Federal funds are traded. This rate is considered to be the most sensitive indicator of the direction of interest rates, as it is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 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

Exhibit A - Glossary

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 or Freddie Mac): Established in 1970 to help maintain the availability of mortgage credit for residential housing. FHLMC finances these operations by marketing guaranteed mortgage certificates and mortgage participation certificates. Its discount notes and bonds do not carry direct U.S. government guarantees.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae): FNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a Federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. FNMA 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. FNMA securities do not carry direct U.S. Government guarantees.

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.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit 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. GNMA securities are backed by the FHA, VA or FMHA mortgages. The term "pass-throughs" is often used to describe GNMA's.

INTEREST RATE RISK: The risk of gain or loss in market values of securities due to changes in interest rate levels. For example, rising interest rates will cause the market value of portfolio securities to decline.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash with minimum risk of principal.

LOCAL AGENCY INVESTMENT FUND (LAIF): An investment pool managed by the California State Treasurer. Local government units, with the consent of the governing body of that agency, may voluntarily deposit surplus funds for the purpose of investment. Interest earned is distributed to the participating governmental agencies on a quarterly basis.

MARK TO MARKET: Current value of securities at today's market price.

MARKET RISK: Systematic risk of a security that is common to all securities of the same general class (stocks, bonds, notes, money market instruments) and cannot be eliminated by diversification (which may be used to eliminate non-systematic risk).

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

Exhibit A - Glossary

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

MEDIUM-TERM NOTES (MTNs): Continuously offered notes having any or all of the features of corporate bonds and ranging in maturity from nine months out to thirty years. The difference between corporate bonds and MTNs is that corporate bonds are underwritten.

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

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

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: The collection of securities held by an investor.

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

PRUDENT PERSON RULE: An investment standard: The way a prudent person of discretion and intelligence would be expected to manage the investment program in seeking a reasonable income and preservation of capital.

RATE OF RETURN: (1) The yield obtainable on a security based on its purchase price or its current market price. (2) Income earned on an investment, expressed as a percentage of the cost of the investment.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. 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.

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

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

Exhibit A - Glossary

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

SEC RULE 15C3-1: See Uniform Net Capital Rule.

SECONDARY MARKET: A market for the repurchase and resale of outstanding issues following the initial distribution.

SECURITIES: Investment instruments such as notes, bonds, stocks, money market instruments and other instruments of indebtedness or equity.

SPREAD: The difference between two figures or percentages. It may be the difference between the bid (price at which a prospective buyer offers to pay) and asked (price at which an owner offers to sell) prices of a quote, or between the amount paid when bought and the amount received when sold.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and corporations which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

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

TREASURY BOND: A long-term coupon-bearing U.S. Treasury security issued as a direct obligation of the U.S. Government and having an initial maturity of more than ten years.

TREASURY NOTE: A medium-term coupon-bearing U.S. Treasury security issued as a direct obligation of the U.S. Government and having an initial maturity 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 of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The annual rate of return on an investment expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security.

YIELD CURVE: Yield calculations of various maturities of instruments of the same quality at a given time to observe spread differences.