

# **CITY OF REDONDO BEACH, CALIFORNIA**



## **STATEMENT OF INVESTMENT POLICY FISCAL YEAR 2025**

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## **1. Introduction and Overview**

This statement is intended to establish the policies for prudent investment of the City of Redondo Beach's ("City") funds, and to provide guidelines for suitable investments. The City is located in the South Bay region of the Greater Los Angeles area and has a population of about 68,000.

## **2. Governing Authority**

The City Council is the governing body of the entity.

## **3. Delegation of Authority and Investment Responsibility**

In accordance with the City of Redondo Beach Charter Section 11.1, the City Treasurer is authorized to invest and reinvest the City's funds according to State law; provided, however, that the City Council may adopt investment guidelines by resolution.

The Charter of the City of Redondo Beach and the authority granted by City Council assign the responsibility of investing unexpended surplus cash to the City Treasurer. In the absence of the City Treasurer, the authority to execute investment transactions will be restricted to the Deputy City Treasurer, or other City Treasurer designee, after notification to both the City Council and the Budget and Finance Commission.

## **4. Budget and Finance Commission**

The City's Budget and Finance Commission, within the advisory powers assigned to the Commission by Ordinance, shall serve in an independent investment advisory capacity, providing oversight of the investment activities of the City Treasurer.

The Budget and Finance Commission shall review on a quarterly basis reports submitted by the City Treasurer analyzing the City's Pool and Investment market trends. With respect to the Commission's investment oversight responsibilities, the intended purpose of the Budget and Finance Commission is to serve in an advisory capacity to the City Treasurer and City Council. Serving in this advisory capacity, the Budget and Finance Commission will provide an important oversight role to the function of City Treasurer's management of the City's Pool, ensuring that the investment decisions of the City Treasurer are made in compliance with the established investment policy guidelines contained within this statement of Investment Policy. The Budget and Finance Commission is not authorized to direct investment decisions, or select individual investment advisors, brokers, or dealers.

## **5. Policy Statement**

It is the policy of the City of Redondo Beach to invest public funds not required for immediate day-to-day operations in safe and liquid investments having a market-average rate of return while conforming to all state statutes governing the investment of public funds.

The ultimate goal is to enhance the economic status of the City while protecting its funds.

The investment policies and practices of the City of Redondo Beach are based upon Federal, State, and local law and prudent money management. The primary goals of these policies are:

- a. To assure compliance with all Federal, State and local laws governing the investment of monies under the control of the City Treasurer.
- b. To maintain the principal value of assets entrusted to this office and provide adequate liquidity to meet operating expenditures.
- c. It is recognized that within a well-diversified portfolio, at any particular point in time, that security valuations are impacted by changes in interest rates and economic conditions. Accordingly, securities may at times be worth less than original purchase price based on market fluctuations. Recognizing these factors, it is the expressed intention of our investment policy to hold all investments to maturity to ensure the return of all invested principal dollars. Securities shall generally be held until maturity with the following exceptions:
  - A security with declining credit may be sold early to minimize loss of principal.
  - A security swap may be executed if it will increase the quality, yield, or target duration in the portfolio.
  - Liquidity needs of the City require that the security be sold.
- d. In addition, through the maintenance of sufficient diversification of investments, the forced liquidation of investments at a loss will be avoided, if possible. It is further understood, however, that in the event of the need for a forced liquidation of investments to meet unplanned or unanticipated cash flow demands, a potential loss of investment principal may potentially occur.
- e. Within constraints of safety and liquidity, generate a market rate of return within the parameters of this Statement of Investment Policy and the guidelines for suitable investments.

## **6. Scope of the Investment Policy**

This investment policy applies to all financial assets, investment activities and debt issues of the City of Redondo Beach (including funds, which are invested by trustees appointed under debt trust indentures, with direction from the City Treasurer). This policy covers the investment activities of all contingency reserves and inactive cash balances under the direct authority of the City.

All monies entrusted to the City Treasurer will be pooled in a diversified portfolio. The Investment Pool or "Portfolio" will be referred to as the "Pool" throughout the remainder of this document. The City Treasurer and staff will observe, review and react to changing conditions that affect the Pool.

Investments made on a pooled basis include investments of the City and its component units, including the City of Redondo Beach, the Successor Agency to the City Redevelopment Agency, the Parking Authority, the Public Financing Authority, and the

Housing Authority. The City's Comprehensive Annual Financial Report identifies the fund types incorporated under the City's investment pool as follows:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Fiduciary-Agency Funds
- Any new funds created by the City Council, unless specifically exempted

All debt issue proceeds will be invested in accordance with the associated trust indenture, and in such a manner that facilitates arbitrage rebate calculations.

In determining the investment of funds associated with bonded debt issues, debt proceeds will be invested in accordance with the most restrictive investment requirements contained within either the City's investment policy or the associated bond trust indenture.

Excluded from the scope of the City Treasurer's Investment responsibilities are investments related to funds dedicated for Retirement purposes and Deferred Compensation investment funds.

## **7. Objectives**

### **A. Safety of Principal**

Safety of Principal is the foremost objective of the City of Redondo Beach. Each investment transaction shall seek to ensure that capital losses are avoided whether from institution default or broker-dealer default. The City shall seek to preserve principal by mitigating the two types of risk, credit risk and market risk.

1. **Credit Risk** Credit risk, defined as the risk of loss due to failure of an issuer of a security, shall be mitigated by investing in only very safe institutions and by diversifying the Pool so that the failure of any one issuer would not unduly harm the City's cash flow.
2. **Market Risk** The risk of market value fluctuations due to overall changes in the general level of interest rates shall be mitigated by limiting the weighted average maturity of the City's Pool to no greater than 2.5 years in a diversified Pool.

### **B. Liquidity**

Liquidity is the second most important objective of the City of Redondo Beach. It is important that an investment contain the feature of being easily sold at any time with a minimal risk of loss of some portion of principal or interest. The City may experience unexpected or unusual circumstances that result in some investments needing to be sold to meet a contingency. Therefore, the City maintains a high degree of liquidity in its pool. To the extent possible, investments will be made so that maturities are compatible with cash flow requirements. To ensure that

sufficient investment Pool liquidity is maintained at all times, a minimum of twenty-five percent (25%) of the overall investment Pool's investments will be maintained in liquid investments in (a) the State Local Agency Investment Fund (LAIF), (b) allowable mutual funds as set forth in Section 15, or (c) securities with a remaining maturity of one year or less, and (d) a combination. No single investment shall be purchased with a term to maturity at the date of purchase that exceeds 5 years, except as special circumstances dictate and with the expressed approval of the City Council.

**C. Maturity Matrix**

Maturities of investments will be selected based on liquidity requirements in order to minimize interest rate risk and maximize earnings. Current and expected yield curve analysis will be monitored, and the Pool will be invested accordingly. As a general investment guideline, the following percentages of the Pool should be utilized in the selection of investment maturity sectors:

<b><u>Maturity Range</u></b>	<b><u>Suggested Percentage</u></b>
Less than 1 year	Minimum of 25%
Less than 3 years	Minimum of 50%
3 years to 5 years	Maximum of 50%
Over 5 years	City Council Authorization Required

**D. Diversification**

The City's Pool will be diversified to avoid incurring unreasonable and avoidable risks. The investments will be diversified by security type and institution. Allowable limits for specific securities types and institutions are delineated in paragraph VI of this Investment Policy. The aggregate single institution limit of commercial paper, medium term corporate notes, certificates of deposits over the FDIC limit, and banker's acceptances, shall not be greater than five percent (5%) of the Pool. In accordance with Section 7.F, maturities shall be laddered to reduce interest rate risk. In a diversified portfolio, occasional measured losses must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

**E. Performance Standard/Benchmark**

Investment return becomes a consideration only after the basic requirements of investment safety and liquidity have been met. The City's Pool shall be designed to attain a market-average rate of return through economic cycles. Because the Pool is designed to operate on a 'hold-to-maturity' premise (or passive investment style) and because of the safety, liquidity, and yield priorities, the basis that will be used by the City Treasurer in the periodic purchase of investment instruments to determine whether market yields are being achieved shall be the following book return performance standard and benchmark: The 30 month moving average of the 0-5 Year Treasury Index, using month end values.

**F. Timing of Maturities and Maximum Maturities**

Investment maturities shall be consistent with the cash flow requirements of the City. Investment maturities will also be timed so that a disproportionate number of investments will not mature simultaneously. In consideration of the timing of investment maturities, the City Treasurer shall select investment maturities utilizing a "laddering" maturity strategy, ensuring a sufficient, well balanced mix of investment maturities, on a regular basis, consistent with the operating cash flow requirement of the City. The maximum maturity of any security shall not exceed five years unless authorized by the City Council.

**8. Primary Investment Philosophy**

The primary investment philosophy of the City is to match investment maturities with expected cash outflows.

**9. Standard of Prudence**

Management of the City's investments is governed by the Prudent Investor Standard as set forth in the California Government Code section 53600.3:

"Except as provided in subdivision (a) of Section 27000 .3, all 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, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

**10. Ethics and Conflicts of Interest**

All parties involved in the City's investment process shall seek to act responsibly as custodians of the public trust. The City Treasurer, or if appropriate, the Deputy City Treasurer, shall avoid any transaction that might impair public confidence in the City's ability to govern and manage the investment of public funds in an effective manner, including but not limited to, personal business activity that would impair the City Treasurer or Deputy City Treasurer's ability to make an impartial investment decision. The City Treasurer, Deputy City Treasurer, or other official charged with the responsibility of making investment decisions shall have no vested interest in any investment being made involving public funds of the City, and shall gain no financial benefit from such investment decisions.

The City Treasurer and Deputy City Treasurer shall disclose to the City Council any material interests in the financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Redondo Beach.

## **11. Indemnification**

To the fullest extent permitted by law, no investment officer exercising his or her assigned authority with due diligence and prudence, and that acts in accordance with the City's Investment Policy, shall be held personally liable for any individual investment losses or for total Pool losses.

Prior to investment, the City Treasurer or designee shall complete an investigation of the pool/fund.

## **12. Investment Procedures Manual**

The City Treasurer will maintain an Investment Procedures Manual as attached in Exhibit C. The purpose of this manual is to provide both current operational details, and a central point of reference, with respect to Treasury Departmental operations associated with the placement, settlement and clearance of all City Investments. The Investment Procedures Manual serves as an operational complement to the City's Statement of Investment Policy, which will be reviewed on an annual basis by both the City Council and the Budget and Finance Commission as provided in Section 23 of this Investment Policy. The City's Independent Auditors will also be provided with a current copy of both the Statement of Investment Policy and the Investment Procedures Manual on an annual basis.

## **13. Investment Internal Controls**

The City Treasurer will maintain a system of internal investment controls and segregation of responsibilities of investment functions in order to assure an adequate system of internal control over the investment function.

Internal controls over investment transactions include a separation of duties so no one person is selecting, executing, and monitoring investment transactions. Investment transactions are reviewed each year by the City's external auditor to ensure internal controls, including compliance with policies, procedures, and applicable laws.

## **14. Safekeeping And Custody of Securities**

The Treasurer shall select one or more financial institutions to provide safekeeping and custodial services for the City, in accordance with the provisions of Section 53608 of the California Government Code. A Safekeeping agreement approved by the City shall be executed with each custodian bank prior to utilizing that bank's related services. To protect against fraud, embezzlement, or potential losses caused by collapse of individual securities dealers, 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 or PSA agreement (repurchase agreement collateral). All trades executed by a dealer will settle delivery vs. payment (DVP) through the City's safekeeping agent.

Upon purchase, sale, or maturity of investment securities, standing settlement instructions are provided to the servicing banks and broker dealers involved in the transactions. Adherence to these standing settlement instructions ensures accurate and timely settlement of investment security transactions. Standing settlement instructions are restricted in nature, ensuring investment settlements are with established institutions.



## 15. Authorized Investments

The City shall not enter into any investment transaction that might impair public confidence in the Redondo Beach City government. The City is governed by the California Government Code, Sections 53600 et seq. Except as otherwise provided herein, the maximum maturity period for any of these authorized investments is five years from the date of the original purchase of the investment. Within the context of these limitations, the following investments are authorized, as further limited herein. The percentage limitations of authorized investment component categories within this investment policy represent percentages following the provision of sufficient Pool liquidity achieved by maintaining at all times a minimum of twenty-five percent (25%) of the overall Pool's investments in (a) the State Local Agency Investment Fund (LAIF), (b) allowable mutual funds as set forth in Section 15, (c) securities with a remaining maturity of one year or less, and (d) a combination.

### A. United States Treasury Obligations No Limit

United States Treasury Bills, Notes and Bonds, certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. This investment is both safe and liquid. There is no percentage limitation of the Pool that can be invested in this category, although a five-year maturity limitation is applicable.

### B. United States Agency Obligations No Limit

Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA) and those insured by the Federal Housing Administration (FHA). The "prudent investor" rule shall apply for a single agency name, as U.S. Government backing is implied rather than guaranteed. There is no percentage limitation of the Pool that can be invested in this category; although, no greater than forty percent (40%) of the Pool shall be invested with any one issuer.

### C. Banker's Acceptances Maximum of 40%

Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 180 days to maturity or forty percent of the Pool. No more than five percent of the Pool may be invested in banker's acceptances issued by any one commercial bank. Only those banker's acceptances eligible for purchase by the Federal Reserve System meet eligibility requirements for investment by the pool. Investments in Banker's Acceptances shall be placed in instruments ranked within the top two rating categories by two of the three largest rating services. No more than five percent (5%) of the Pool may be invested in banker's acceptances issued by any one entity.

**D. Time Deposits**

No Limit

Time Deposits are issued by depository institutions against funds deposited for a specific length of time. Time Deposits include instruments such as deposit notes. They are distinct from Certificates of Deposit (CDs) in that interest payments on time deposits are calculated in a manner similar to that of corporate bonds whereas interest payments on CDs are calculated similar to that of money market instruments.

The City may invest in non-negotiable time deposits collateralized in accordance with the California Government Code, in those banks and savings and loan associations that meet the requirements for investment in non-negotiable time deposits. Despite the fact that time deposits are not liquid, there is no restriction by the California Government Code on the percentage of bank/time deposits in the Pool. As such, one hundred percent of the Pool may be invested in this category. All investments in time deposits must be issued by a financial institution whose performance has been reliable, and whose safety rating meets the standards established by the City Treasurer. All investments in time deposits must be properly collateralized in accordance with Section 53652 of the California Government Code. The City Treasurer will periodically monitor, on a discretionary yet diligent basis, the operating performance of all financial institutions holding City time deposits, to ensure compliance to collateralization requirements.

**E. Negotiable Certificates of Deposit**

Maximum of 30%

Negotiable certificates of deposit issued by a nationally or State-Chartered Bank or a State or Federal Savings and Loan Association. Purchases of FDIC insured negotiable certificates of deposits will be insured up to the FDIC limit, which is currently \$250,000. No more than \$250,000 of the Pool may be invested in negotiable certificates of deposit in any one bank or savings and loan association. Negotiable Certificates of Deposits maximum thirty percent (30%) limit is in aggregate with Certificate of Deposit Placement Service investments.

**F. Commercial Paper**

Maximum of 25%

Commercial Paper ranked "P1" by Moody's Investor Services or "A1" or higher by Standard and Poor's, and issued by a domestic corporation having assets in excess of \$500,000,000 and having an "A" or better rating on its long term debentures as provided by Moody's or Standard and Poor's. Purchases of eligible commercial paper may not exceed twenty-five percent (25%) of the Pool or have a term to maturity which exceeds 270 days. No more than five percent of the Pool may be invested in commercial paper issued by any one corporation.

**G. Local Agency Investment Fund**

Maximum of \$75 million per account

The City may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer for the benefit of local agencies up to the \$75 million maximum permitted by State law.

## **H. Medium-Term Notes**

Maximum of 30%

Medium-Term Notes are all corporate and depository institution debt securities, with a maximum remaining maturity of five years issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. The minimum quality credit rating requirements of Medium Term Notes by California Government Code is "A". City investment policy requires that at time of purchase, Medium Term Notes eligible for investment shall be rated in a rating category of "A" by S&P or Fitch, or "A2" by Moody's Investors Services or its equivalent or better by a nationally recognized rating service. In the event that prior to maturity any Medium Term Note investment experiences a credit rating downgrade to a level below the City's required credit rating, the City Treasurer will initiate a thorough review of the credit quality of the downgraded Medium Term Note to determine the prudence of selling the note prior to its maturity.

No more than thirty percent (30%) of the Pool may be invested in medium term notes. No more than five percent (5%) of the Pool may be invested in notes issued by one corporation or depository institution. In the event that the percentage of Medium Term Note investments within the Pool temporally exceeds the percentage limitation of this investment policy as dictated by California Government Code, the City Treasurer will take prudent action within 30 days to bring the percentage of the Pool invested in Medium Term Notes into compliance with the percentage limitation of this investment policy.

## **I. Money Market Mutual Funds**

Maximum of 20%

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

1. Prior to selection of investments in any authorized money market mutual funds, the City Treasurer will exercise due diligence in ensuring that all investments in money market mutual funds meet the investment qualification requirements of the California Government Code.
2. No more than twenty percent (20%) of the Pool may be invested in money market mutual funds. . No more than twenty percent (20%) of the Pool may be invested in any individual money market mutual fund.

## **J. Certificate of Deposit Placement Service**

Maximum of 30%

AB 2011 added California Government Code Sections 53601.8 and 53635.8, which expanded Local Agencies' permissible investments to include the use of private Certificate of Deposit placement services. AB 2011 provided Local Agencies with an investment tool that minimizes monitoring and administration of their surplus cash investments while allowing smaller local banks to accept deposits that they currently are unable to because of collateralization requirements. Rather than dealing potentially with multiple banks to ensure full

FDIC insurance coverage for deposits, AB 2011 provided Local Agencies with a means to work with one bank for non-negotiable Certificate of Deposit investments. The statute limits total Pool investment in Certificates of Deposit to thirty percent (30%) of combined negotiable Certificates of Deposit as authorized under California Government Code Section 53601 (h).

**K. Supranationals** Maximum of 15%

United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated "AA" or better by at least one of the three large rating agencies, Moody's, Standard & Poor's, or Fitch, and shall not exceed fifteen percent of the Pool. No greater than five percent (5%) of the Pool shall be invested in any one issuer.

**L. Authorized yet Currently Unutilized Investments**

In managing the Pool, the City Treasurer does not currently utilize the following types of investments that are authorized by California Government Code: Local Agency Bonds; State Obligations of California and other States; California Local Agency Obligations; Repurchase Agreements; Reverse Repurchase Agreements; Mortgage Pass through Securities; and County Pooled Investment Funds. It is the policy of the City of Redondo Beach not to use the above listed types of investments.

**M. Collateralized Bank Deposits** No Limit

Deposits that are at all times secured by a valid first priority security interest in securities of all types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

**N. Joint Powers Authority** Maximum of 20%

Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions of the California Code 53601 (a) to (r), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

(1) The adviser is registered or exempt from registration with the United States Securities and Exchange Commission.

(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.

(3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

No more than 20 percent of the City's funds may be invested in JPAs.

**O. Summary of Maximum Percentage Limitations of Investments, by Investment Type**

Recognizing maintenance of the minimum investment liquidity requirements as addressed within section 7.B of this Investment Policy, the following summary of maximum percentage limitations by investment instrument is established for the City's Pool. The percentage limitations of authorized investment component categories within this investment policy represent percentages following the provision of sufficient Pool liquidity.

Investment Type	Maximum Percentage	Maximum Issuer %	Maximum Maturity	CA Government Code Section
U.S. Treasury Obligations	No limit	No limit	5 years	Cal. Gov't Code § § 53601 (b), 53651 (a)
U.S. Agency Obligations	No limit	40%	5 years	Cal. Gov't Code § 53601 (f)
Bankers Acceptances	40%	5%	180 days	Cal. Gov't Code § 53601 (g)
Time Deposits	No limit	No limit	5 years	Cal. Gov't Code § § 53601, 53638
Negotiable Certificates of Deposit	30% (combined with CD Placement Service)	\$250,000	5 years	Cal. Gov't Code § 53601 (i)
Commercial Paper	25%	5%	270 days	Cal. Gov't Code § 53601 (h)
Local Agency Investment Fund	Per State Limit - \$75 million per Account	Per State Limit - \$75 million per Account	N/A	Cal. Gov't Code § 16429.1
Medium Term Corporate	30%	5%	5 years	Cal. Gov't Code § 53601 (k)
Money Market Mutual Funds	20%	20%	N/A	Cal. Gov't Code § 53601 (l)
Certificate of Deposit Placement Service	30% (combined with CDs)	30%	5 years	Cal. Gov't Code § § 53601.8 53635.8
Supranationals	15%	5%	5 years	Cal. Gov't Code § 53601 (q)
Collateralized Bank Deposits	No Limit	No Limit	N/A	Cal. Gov't Code § § 53651 and 53652 (a)
Joint Powers Authority	20%	20%	NA	Cal. Gov't Code § 53601 (p)

In the event, the percentage of investments within any of the authorized types of investments within the Pool temporally exceeds the percentage limitation of this investment policy as dictated by the California Government Code, the City

Treasurer will take prudent action within 30 days to bring the percentage of the type of investment that temporally exceeds the percentage limitation into compliance with the percentage limitation of this investment policy.

**P. Legislative Changes**

Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into the Investment Policy and supersede any and all previous applicable language.

**16. Unauthorized Investments**

Ineligible Investments are those that are described herein, including but not limited to common stocks, long term (over five years to maturity) notes and bonds, derivative based instruments, inverse floaters, futures and options, interest-only strips that are derived from a pool of mortgages, securities with high price volatility or limited marketability, and any maturity that could result in zero interest accrual if held to maturity, are prohibited from use in the Pool.

**17. Portfolio Management Activity**

The investment program shall seek to augment returns consistent with the intent of this policy, identified risk limitations and prudent investment principals. These objectives will be achieved by use of the following strategies:

- A. Active Portfolio Management**--Through active fund and cash flow management taking advantage of current economic and interest rate trends, the pool yield may be enhanced with limited and measurable increases in risk by extending the weighted maturity of the total pool.
- B. Portfolio Maturity Management**--When structuring the maturity composition of the pool, the City shall evaluate current and expected interest rate yields and necessary cash flow requirements. It is recognized that in normal market conditions longer maturities produce higher yields. However, the securities with longer maturities also experience greater price fluctuations when the level of interest rates change.
- C. Security Swaps**--The City may take advantage of security swap opportunities to improve the overall pool yield. A swap which improves the pool yield may be selected even if the transactions result in an accounting loss. Documentation for swaps will be included in the City's permanent investment file documents.
- D. Competitive Bidding**-- To ensure that the purchase of City investments is obtained in the most cost effective and efficient manner, the City Treasurer will encourage competitive bidding for City investment transactions. On an annual basis, the City Treasurer will accept applications from qualified members of the investment broker-dealer community interested in bidding on City investment instruments. The City Treasurer shall establish, on an annual basis, a limited array of qualified broker-dealers to serve the City's investment opportunities. Selection criteria for inclusion on the City's annual list of broker-dealers will be based upon merit, expertise, and performance.

Competitive bidding on individual investment transactions is required on all transactions except those pertaining to "new issue" securities. A new issue security denotes a security that is originally brought to market. Investments in "non-new issue" securities, and the sale of all securities, will require the competitive bid of at least two bidders from the approved list of broker dealers.

Competitive bidding for security swaps is also suggested, however, it is understood that certain time constraints and broker inventory limitations exist which would not accommodate the competitive bidding process. If a time or inventory constraining condition exists, the pricing of the swap should be verified to current market conditions and documented for auditing purposes.

Details of investment transactions involving competitive bidding will be included in the City Treasurer's quarterly report provided to the City Council and the Budget and Finance Commission.

To ensure the accurate and timely processing, clearance, and settlement of all City Investments, the City Treasurer shall maintain an Investment Procedures Manual. This manual provides current details with respect to operational procedures associated with the placement and clearance of all City Investments. To ensure the accuracy and timeliness of this Investment Procedures Manual, the manual will be reviewed on an annual basis by the City's Independent Auditors.

If the City utilizes an Investment Advisor, the Investment Advisor shall act on a non-discretionary basis as set forth below.

Upon written approval from the City Treasurer, the Investment Advisor shall execute trades on behalf of the City by obtaining at least three bids or offers. However, multiple offers may not be available if the security is a new issue or offered by fewer than three broker/dealers. In that event, the Investment Advisor shall document the bids and offers received, and provide yield information to the City Treasurer for comparable securities.

All investment transactions executed by the Investment Advisor shall comply with Sections 7 (Objectives) and 15 (Authorized Investments) of this Policy. The Investment Advisor shall also comply with applicable laws, rules, regulations, and guidelines, including but not limited to, the Securities and Exchange Commission, and guidelines stipulated in its Securities and Exchange Commission Form ADV and ADV Part 2A Brochures, which shall be provided to the City annually.

## **18. Collateralization**

Investments in time certificates of deposits shall be fully insured up to \$250,000 by the Federal Deposit Insurance Corporation or the Federal Savings & Loan Insurance Corporation, as appropriate. Investments in time certificates of deposit in excess of \$250,000 shall be properly collateralized. Section 53652 of the California Government Code requires that the depository pledge securities with a market value of at least ten percent (10%) in excess of the City's deposit as collateral in government securities, and fifty percent (50%) in excess of the deposit as collateral in mortgage pools. Section 53649

of the California Government Code specifies that the City Treasurer is responsible for entering into deposit contracts with each depository. Investments held with Third Parties holding collateral for the investment shall be properly collateralized in accordance with collateralization requirements of the California Government Code.

## **19. Registered Investment Advisor Service**

Federal and State Regulation: Investment Advisors with assets under management of \$25 million to \$100 million or more are registered by the Securities and Exchange Commission (SEC), under the Investment Advisers Act of 1940 (Act). The Act requires investment advisors to file an initial application, known as the "Uniform Application for Investment Advisor Registration" or "Form ADV," with the SEC. They also must file an annual updating amendment, as well as an amendment any time a significant change has occurred at the firm. The

SEC requires investment advisors to maintain extensive records, and has the authority to sanction advisors who break the law or rules established under the Act. The SEC generally conducts routine inspections of advisors' records about once every five years, and may initiate an inspection on the basis of an investor complaint. Advisors registered with the SEC also must submit a simplified filing with securities authorities in the states in which they do business. The City shall only deal with SEC registered investment advisors with \$1 billion or more of funds under management.

Investment advisors with assets under management of less than \$25 million are regulated by the states in which they do business. In California, such investment advisors register with the California Department of Corporations. It is important to note that the regulatory authorities do not review the credentials or qualifications of advisors, nor do they "approve" or endorse any advisory firm or individual. The role of the regulatory authorities is to enforce the securities laws and not to judge the qualifications of individual advisors.

CDIAC advises that in 1996, the California Attorney General published Opinion 95-807 which addresses utilization of outside investment managers. The opinion states that a City Treasurer can have a contract with an external investment manager. Since there is no specific reference to a section of the California Government Code regarding these services, reference to Opinion 95-807 is sufficient.

## **20. Authorized Financial Dealers And Institutions**

The City shall transact business only with nationally or state chartered banks, federal or state savings and loan institutions, and registered primary investment securities dealers. The purchase by the City of any investment other than those purchased directly from the issuer, shall be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the California Corporations Code, who is a member of the Financial Industry Regulatory Authority (FINRA), or a member of a Federally regulated securities exchange, a National or State-Chartered Bank, a Federal or State Association (as defined by Section 5102 of the California Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

To continue to maintain broker/dealers with quality services, expertise, and credit worthiness, the City Treasurer may, on a selective basis, expand the approved list of primary dealers to include "qualified regional" dealers.



A "qualified regional" dealer must demonstrate the following requirements:

- The "qualified regional" firm must be able to demonstrate their services and/or expertise is not currently being provided by a primary broker/dealer and will specifically and immediately benefit the City.
- In addition to qualifying under the Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule), the regional dealer shall not self-clear securities. The clearinghouse through which all transactions are cleared and settled has a minimum investment grade rating of A or better by S&P or Moody.
- The representatives chosen to work with the City Treasurer are institutional brokers familiar with and experienced in the specific needs of California public funds. "Familiar" implies an institutional broker who spends the majority of their time and effort working with public funds.

All institutions which the City Treasurer wishes to do business shall be investigated to determine if they are adequately capitalized, have pending legal action against the firm or the individual broker, are registered with FINRA, make markets in the securities appropriate to the City's needs, and agree to abide by the conditions set forth in the City of Redondo Beach's Investment Policy.

The City Treasurer shall annually send a copy of the current Investment Policy to all broker/dealers approved to do business with the City. Confirmation is required of broker dealers of receipt of this policy and shall be considered evidence that the dealer understands the City's investment policies and intends to sell the City only appropriate investments authorized by this investment policy.

To further ensure that investments are purchased only through well established, financially sound institutions, the City Treasurer shall maintain a list of financial institutions and brokers approved for the conduct of investment transactions. All financing institutions and brokers who desire to become qualified bidders for investment transactions will be given a copy of the City's Investment Policy, and in turn must supply the City Treasurer with the following:

- Current audited financial statements (within 120 days of Fiscal Year End).
- Depository contracts, as appropriate.
- A copy of the latest FDIC call report or the latest FHLB report, as appropriate
- Proof that commercial banks, savings banks, or savings and loan associations are state or federally chartered.
- Proof that brokerage firms are members in good standing on a national securities exchange.
- Proof of State registration.
- Trading resolution.

- Completed Broker/Dealer Questionnaire.
- Certification of having read the City's investment policy and depository contracts.

Commercial banks, savings banks, and savings and loan associations must maintain a minimum net worth to asset ratio of three percent (3%) (total regulatory net worth divided by total assets), and must have had positive net earnings for the last reporting period.

A list of qualified brokers from which the City may purchase investments will be submitted annually by the City Treasurer for approval by the City Council as part of the annual review of investment strategy.

See EXHIBIT A regarding broker/dealers utilized by the investment advisor.

## **21. Monthly and Quarterly Reporting**

The City Treasurer shall render a monthly report to the City Council showing the type of investment, issuing institution, date of maturity, amount of deposit, current market value for all securities, rate of interest, percentage of the Pool representing each investment category, transactions for the period, the ability of the City to meet the expenditure requirements for the next six months or provide an explanation why requirements may not be met, comments with respect to the current fixed income marketplace and current economic conditions impacting the value of fixed income investments, and such data as may be required by the City Council. The City Treasurer shall make quarterly presentations to the Budget and Finance Commission and to the City Council analyzing the Pool and investment market trends.

The securities held by the City must be in compliance with Section 15 Authorized Investments at the time of purchase. Because some securities may not comply with Section 15 Authorized Investments subsequent to the date of purchase, the Treasurer shall at least quarterly review the portfolio to identify those securities that do not comply. The Treasurer shall report to the Budget and Finance Commission, should one exist, major and critical incidences of noncompliance identified through the review of the Pool.

## **22. Ongoing Training and Education**

The City strives for professionalism and accountability in the investment of its funds. In order to assure the highest possible professional standards, the City may provide opportunities and funding for the personnel involved in the investment function to complete continuing education programs or other training in cash and investment management sufficient to maintain their skills and remain up-to-date on best practices and new regulations.

## **23. Annual Policy Review and Adoption**

This Investment Policy shall be reviewed annually by both the Budget and Finance Commission and the City Council to ensure its consistency with the overall objectives of preservation of Principal, Liquidity, and Yield, its relevance to current financial and economic trends, and ability to meet the cash flow operational needs of the City. As part of the City Council's annual review of the City's Statement of Investment Policy, and in

accordance with the requirements of the California Government Code, the City Council will adopt the City's Statement of Investment Policy, inclusive of amendments, on an annual basis. To ensure that the Statement of Investment Policy meets continued high standards of legal compliance and reporting excellence, the City Treasurer will submit the Statement of Investment Policy to the California Municipal Treasurer's Association or the Association of Public Treasurers of the United States and Canada for review and recertification no sooner than every three years, nor later than every five years.

## **EXHIBIT A**

### **REGISTERED INVESTMENT ADVISOR AND QUALIFIED BROKERS FROM WHICH THE CITY MAY PURCHASE INVESTMENTS**

**Registered Investment Advisor:** Rick Phillips, Meeder Public Funds, Inc.

**Qualified Brokers:** Meeder Public Funds, Inc. maintains an approved list of qualified Broker Dealers, which will be used in transacting business with the City of Redondo Beach.

City Investment Policy Annual Review: August 19, 2025

Budget and Finance Commission Review: August 14, 2025

City Investment Policy Annual Adoption: August 19, 2025

## EXHIBIT B

### GLOSSARY OF TERMS

The following is a glossary of key terms which appear in the Government Investment Officers Association's Model Investment Policy. (Note: The entity's Policy should include relevant terms, not all terms may need to be included)

**144A:** A Section of the Securities and Exchange Commission (SEC) which restricts trades of privately placed securities so that these investments can be traded among qualified institutional buyers.

**Accretion:** The increase in the value of a discounted instrument as time passes and as the maturity date gets closer. The value of the instrument will accrete (grow) at the interest rate implied by the discounted issuance price, the value at maturity, and the term to maturity.

**Accrued Interest:** The interest that has accumulated but has not yet been paid from the most recent interest payment date or issue date to a certain date.

**Agency:** A debt security issued by an agency or instrumentality of the United States. Agencies are backed by each particular agency or instrumentality of the United States with a market perception that there is an implicit government guarantee.

**Amortized Cost:** The original cost of the principal adjusted for the periodic reduction of any discount or premium from the purchase date until a specific date (also called "Book Value").

**Amortization:** The systematic reduction of the amount owed on a debt issue through periodic payments of principal. The decrease in the value of a premium instrument as time passes and as the maturity date gets closer. The value of the instrument will amortize (decrease) at the interest rate implied by the discounted issuance price, the value at maturity, and the term to maturity.

**Asset-Backed Security:** A security backed by notes or receivables against assets other than real estate. Examples are autos, credit cards, and equipment.

**Ask/Offer:** The price at which securities are offered.

**Bankers' Acceptances:** A short-term credit instrument created by a non-financial firm and guaranteed by a bank as to payment. Acceptances are traded at discounts from face value in the secondary market on the basis of the credit quality of the guaranteeing banks.

**Basis Point:** A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield. As an example, the difference between a security yielding 2.00% and 2.25% is 25 basis points.

**Benchmark:** A comparative base for measuring the performance or risk tolerance of an investment portfolio. A benchmark should represent the persistent and prominent characteristics of a portfolio, taking into account metrics such as duration, investment type, and asset allocation.

**Bid:** The indicated price at which a buyer is willing to purchase a security or commodity.

**Bond:** A long-term debt instrument of a government or corporation promising payment of the original investment plus interest by a specified future date.

**Book or Effective Return:** The sum of all investment income plus realized gains and losses.

**Book Value:** The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

**Broker:** A broker facilitates security trades on behalf of investors (see Dealer).

**Bullet:** A colloquial term for a bond that cannot be redeemed, or called, prior to maturity.

**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 which calls for delivery and payment of securities on the same day that the transaction is initiated.

**Certificate of Deposit:** A debt instrument issued by financial institutions that will pay interest, periodically or at maturity, and principal when it reaches maturity. Maturities range from a few weeks to several years.

**Collateralization:** A process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

**Collateralization:** Process by which a borrower pledges securities, property or other deposits for the purpose of securing the repayment of a loan and/or security.

**Collateralized (Guaranteed) Investment Contracts (CIC):** A CIC is a fixed rate, fixed maturity contract similar to a bond that is typically collateralized by an insurance company. However, unlike a bond, a CIC is always carried or valued at par. CICs are primarily utilized for the investment of bond proceeds.

**Commercial Paper:** An unsecured short-term promissory note issued by corporations, with maturities typically ranging from 1 to 270 days, and usually transacts at a discount with no coupon payments.

**Comprehensive Annual Financial Report (CAFR):** The CAFR is the entity's official annual financial report. It consists of three major sections: introductory, financial, and statistical. The introductory section furnishes general information on the entity's structure, services, and environment. The financial section contains all basic financial statements and required supplementary information, as well as information on all individual funds and discretely presented

component units not reported separately in the basic financial statements. The reported information is in conformity with accounting principles generally accepted in the United States of America (GAAP). The financial section may also include supplementary information not required by GAAP. The statistical section provides trend data and nonfinancial data useful in interpreting the basic financial statements and is especially important for evaluating economic condition.

**Convexity:** A measure of how much a fixed-income instrument's duration changes when interest rates change. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

**Corporate Security:** A debt obligation issued by a corporation.

**Coupon or Coupon Rate:** The stated interest rate on a debt security that an issuer promises to pay. The origin of the term "coupon" is that bonds were historically issued in the form of bearer certificates. Physical possession of the certificate was proof of ownership. Several coupons, one for each scheduled interest payment, were printed on the certificate.

**Credit Quality:** The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

**Credit Risk:** The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

**Current Yield (Current Return):** A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

**CUSIP:** A unique identifier for a security developed by the Committee on Uniform Security Identification Procedures (CUSIP). The identifier is a nine-digit alphanumeric character. The first six characters identify the issuer, the following two identify the issue, and the final character is a check digit. CUSIPs are correlated to an alphabetical listing of the issuer's name.

**Day Count Convention:** A day-count convention is the system used to calculate the amount of accrued interest or the present value when the next coupon payment is less than a full coupon period away. Each bond market and financial instrument has its own day-count convention, which varies depending on the type of instrument, whether the interest rate is fixed or floating, and the country of issuance. Among the most common conventions are 30/360 or 365, actual/360 or 365, and actual/actual.

**Dealer:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for their own account. (see Broker).

**Debenture:** A bond secured only by the general credit of the issuer and not by physical assets or collateral of the company.

**Delivery (Settlement):** There are typically four types of delivery or settlement of securities: cash, which is the same day as the transaction occurred; regular, which trade day plus one; corporate,

which is trade day plus two; and forward, which typically occurs three to thirty days after the trade date.

**Delivery Versus Payment (DVP):** A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

**Derivative Security:** Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

**Discount:** The amount by which the par value of a security exceeds the price paid for the security.

**Discount Rate:** The interest rate member banks pay the Federal Reserve when the banks use securities as collateral.

**Diversification:** A process of investing assets among a range of security types by sector, maturity, and quality rating.

**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. There are three primary types of duration: Macaulay Duration, Modified Duration, and Effective Duration.

**Macaulay Duration** was developed in 1938 by Frederic Macaulay, this form of duration measures the number of years required to recover the true cost of a bond, considering the present value of all coupon and principal payments received in the future. Thus, it is the only type of duration quoted in “years.” Interest rates are assumed to be continuously compounded.

**Modified Duration** expands or modifies Macaulay duration to measure the responsiveness of a bond’s price to interest rate changes. It is defined as the percentage change in price for a 100 basis point change in interest rates. The formula assumes that the cash flows of the bond do not change as interest rates change (which is not the case for most callable bonds).

**Effective Duration** (sometimes called option-adjusted duration) further refines the modified duration calculation and is particularly useful when a portfolio contains callable securities. Effective duration requires the use of a complex model for pricing bonds that adjusts the price of the bond to reflect changes in the value of the bond’s “embedded options” (e.g., call options or a sinking fund schedule) based on the probability that the option will be exercised. Effective duration incorporates a bond’s yield, coupon, final maturity and call features into one number that indicates how price-sensitive a bond or portfolio is to changes in interest rates.

**Earnings Apportionment:** The distribution of investment income to investment pool participants.

**Environmental, Social, and Governance (ESG):** (ESG) criteria are a set of standards for a company’s operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the



communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

**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.

**Federal Agricultural Mortgage Corporation (FAMC/Farmer Mac):** Farmer Mac is a stockholder-owned, federally chartered corporation with the mission of providing a secondary market for a variety of loans made to borrowers in rural America. Farmer Mac was established under federal legislation in 1988. Farmer Mac is an instrumentality of the United States and government-sponsored enterprise ("GSE") by virtue of the status conferred by its charter. s. Farmer Mac is part of the Farm Credit System but is separate from the Federal Farm Credit Banks and Funding Corporation. It is based primarily in Washington, D.C, and also has offices in Iowa, Idaho, and California.

**Federal Deposit Insurance Corporation (FDIC):** The FDIC preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least \$250,000; by identifying, monitoring and addressing risks to the deposit insurance funds; and by limiting the effect on the economy and the financial system when a bank or thrift institution fails. An independent agency of the federal government, the FDIC was created in 1933 in response to the thousands of bank failures that occurred in the 1920s and early 1930s. Since the start of FDIC insurance on January 1, 1934, no depositor has lost a single cent of insured funds as a result of a failure. The FDIC receives no Congressional appropriations - it is funded by premiums that banks and thrift institutions pay for deposit insurance coverage and from earnings on investments in U.S. Treasury securities. The FDIC insures trillions of dollars of deposits in U.S. banks and thrifts - deposits in virtually every bank and thrift in the country.

**Federal Funds (Fed Funds):** Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

**Federal Funds Rate:** Interest rate charged by one institution lending federal funds to the other.

**Federal Farm Credit Bank (FFCB/Farm Credit):** The Federal Farm Credit Banks Funding Corporation is responsible for issuing and marketing debt securities on behalf of the four Banks of the Farm Credit System: AgFirst FCB, Agribank FCB, FCB of Texas. And CoBank, ACB. These four Banks (located in South Carolina, Minnesota, Texas, and Colorado) are a leading provider of loans, leases and services to rural communities and U.S. agriculture. The Farm Credit System is a government-sponsored enterprise, created in 1916 and dedicated to assuring a steady source of financing to qualified borrowers. The Federal Farm Credit Banks Funding Corporation is based in Jersey City, New Jersey.

**Federal Home Loan Banks (FHLB/Home Loan):** The Federal Home Loan Banks are 11 U.S. government-sponsored banks that provide reliable liquidity to member financial institutions to support housing finance and community investment. With their members, the FHLB represents the largest collective source of home mortgage and community credit in the United States. FHLB was created by Congress in 1932 by the Federal Home Loan Bank Act and is located in Reston, Virginia.

**Federal Home Loan Mortgage Corporation (FHLMC/Freddie Mac):** Freddie Mac was created by Congress in 1970 to expand the secondary market for mortgages in the US. Along with the Federal National Mortgage Association, buys mortgages on the secondary market, pools them, and sells them as a mortgage-backed security to investors on the open market. This secondary mortgage market increases the supply of money available for mortgage lending and increases the money available for new home purchases. Freddie Mac, is headquartered in McLean, Virginia.

**Federal National Mortgage Association (FNMA/Fannie Mae):** Fannie Mae was created Congress in 1938 to provide supplemental liquidity to the mortgage market, similar to the FHLMC. Fannie Mae, is headquartered in Washington, D.C.

**Federal Open Market Committee (FOMC):** The FOMC is the branch of the Federal Reserve Board that determines the direction of monetary policy. The FOMC meets several times a year to discuss whether to maintain or change current policy.

**Federal Reserve Board (FRB):** The governing body of the Federal Reserve System (12 regional Federal banks monitoring the commercial and savings banks in their regions). The board establishes policies on such key matters as reserve requirements and other regulations, sets the discount rate, and tightens or loosens the availability of credit in the economy.

**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 6,000 commercial banks that are members of the system. These member banks hold stock in the Federal Reserve Banks and earn dividends.

**Financial Industry Regulatory Authority (FINRA):** FINRA is a private corporation, authorized by Congress, that acts as a self-regulatory organization. FINRA is the successor to the National Association of Securities Dealers, Inc. and the member regulation, enforcement, and arbitration operations of the New York Stock Exchange. FINRA also provides BrokerCheck, which is a service to obtain information regarding brokers, brokerage firms, and investment advisors.

**Fitch:** A credit rating agency that as one of its services, analyzes and rates securities. Fitch Ratings is one of the “Big Three” credit rating agencies, along with Moody’s and S&P.

**Floating Rate Securities:** A bond whose interest rate is adjusted according to the interest rates of other financial instruments. These instruments provide protection against rising interest rates, but pay lower yields than fixed rate notes.

**Futures:** Futures are derivative financial contracts that obligate the parties to transact an asset at a predetermined future date and price. Here, the buyer must purchase or the seller must sell the underlying asset at the set price, regardless of the current market price at the expiration date.

**Generally Accepted Accounting Principles (GAAP):** GAAP refer to a common set of accepted accounting principles, standards, and procedures that companies and their accountants must follow when they compile their financial statements. GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information. GAAP improves the clarity of the communication of financial information.

**Governmental Account Standards Board (GASB):** GASB is a non-profit entity that was organized in 1984 by the Financial Accounting Foundation (FAF) to establish standards of financial accounting and reporting for state and local governmental entities. Its standards guide the preparation of external financial reports of those entities.

**Government National Mortgage Association (GNMA/Ginnie Mae):** Ginnie Mae is a U.S. government corporation that guarantees the timely payment of principal and interest on mortgage-backed securities issued by approved GNMA lenders. That assurance allows the mortgage lenders to obtain a better price for these offerings in the capital markets. Those improved proceeds, in turn, allow the lenders to make additional mortgage loans, and at lower costs to finance. GNMA was created by Congress in 1968 and is headquartered in Washington D.C.

**Government Securities:** An obligation backed by the full faith and credit of the U.S. 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."

**Government Sponsored Enterprises (GSEs):** Federally-chartered agency or instrumentality of the United States Government

**IDC Ranking:** IDC Financial Publishing, Inc. compiles financial data on all banks, thrifts, and credit unions reporting to the federal government, and publishes a ranking based on 24 key indicators.

**Interest Rate:** See "Coupon Rate."

**Interest Rate Risk:** The risk associated with declines or rises in interest rates, which cause an investment in a fixed-income security to increase or decrease in value. Duration is a measure of interest rate risk.

**Interest Rate Swap:** An interest rate swap is a forward contract in which one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps usually involve the exchange of a fixed interest rate for a floating rate, or vice versa, to reduce or increase exposure to fluctuations in interest rates or to obtain a marginally lower interest rate than would have been possible without the swap.

**Inter-American Development Bank (IADB):** An international financial institution that supports Latin American and Caribbean economic development, social development and regional integration by lending to governments and government agencies, including State corporations. The IADB is headquartered in Washington, D.C. IADB is a supranational organization and was established in 1959.

**International Bank for Reconstruction and Development (IBRD):** An international financial institution that offers loans to middle-income developing countries. The IBRD is the first of five member institutions that compose the World Bank Group, and is headquartered in Washington, D.C. IBRD is a supranational organization and was established in 1944.

**International Finance Corporation (IFC):** An international financial institution that offers investment, advisory, and asset-management services to encourage private-sector development in less developed countries. The IFC is a member of the World Bank Group and is headquartered in Washington, D.C. IFC is a supranational organization and was established in 1956.

**Inverse Floater:** An inverse floater is a bond or other type of debt whose coupon rate has an inverse relationship to a benchmark rate. An inverse floater adjusts its coupon payment as the interest rate changes.

**Inverted Yield Curve:** A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of (or anticipation of) high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

**Investment Company Act of 1940:** Federal legislation, which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

**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:** Obligations that are rated BBB or higher by a rating agency

**Joint Powers Authority: A Joint Powers Authority (JPA) is a legal entity formed by two or more public agencies to work together on a specific project or purpose.**

**Leverage:** The use of financial leverage to control a greater amount of assets (by borrowing money) will cause the returns on the owner's cash investment to be amplified.

**Liquidity:** The amount of a portfolio or an asset that can be converted easily and quickly into cash.

**Local Government Investment Pool (LGIP):** An investment by local governments in which their money is pooled as a method for managing local funds.

**Make Whole Call:** A make whole call provision is a type of call provision on a bond allowing the issuer to pay off remaining debt early. The issuer typically has to make a lump sum payment to the investor derived from a formula based on the net present value (NPV) of future coupon payments that will not be paid incrementally because of the call combined with the principal payment the investor would have received at maturity.

**Mark-to-Market:** The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

**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.

**Master Repurchase Agreement (MRA):** A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower. SIFMA's MRA is the industry standard agreement.

**Maturity:** The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity".

**Medium Term Notes:** Debt obligations of banks, corporations, and insurance companies. They are issued at a specific rate of return for a specific period of time.

**Monetary Policy:** The way in which the money supply is managed by the Federal Reserve Board. The FRB manipulates the money supply either through open market transactions, member bank reserve requirements, or through changing the Fed Funds Rate or the Discount Rate.

**Money Market:** Typically refers to short-term debt instruments (bills, commercial paper, discount notes, etc.).

**Money Market Fund:** Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos, and federal funds).

**Moody's Investors Service:** A company that as one of its services, analyzes and rates securities (similar to Fitch and Standard and Poor's).

**Mortgage-Backed Security:** A security that is backed by a pool of mortgages. Generally, the security is issued or guaranteed by the United States or its agencies or instrumentalities, but also may be issued by financial institutions such as banks.

**Municipal Bond:** A municipal bond is a debt security issued by a local government, such as county, state, city, special improvement district, to finance its capital expenditures, including the construction of highways, bridges or schools. Municipal bonds can issue taxable or tax-exempt from federal, state, and local taxes.

**Mutual Fund:** A mutual fund is a professionally managed investment fund that pools money from many investors to purchase securities. These investors may be retail or institutional in nature. Mutual funds have advantages and disadvantages compared to direct investing in individual securities.

**Nationally Recognized Statistical Rating Organization (NRSRO):** A credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. The most recognized NRSROs are Fitch, Moody's, and Standard and Poor's.

**National Association of Securities Dealers (NASD):** A self-regulatory organization of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

**Nominal Yield:** The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

**Offer:** An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

**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.

**Option Adjusted Spread (OAS):** Option-adjusted spread is the yield spread which has to be added to a benchmark yield curve to discount a security's payments to match its market price, using a dynamic pricing model that accounts for embedded options. OAS is hence model-dependent.

**Overnight Indexed Swap (OIS):** OIS is an interest rate swap where the periodic floating payment is generally based on a return calculated from a daily compound interest investment. ... The LIBOR–OIS spread is the difference between LIBOR and the OIS rates.

**Par:** Face value or principal value of a bond, typically \$1,000 per bond.

**Pass-Thorough Securities:** A debt instrument that reflects an interest in a mortgage pool, consumer receivables pool and equipment lease-backed pool that serves as collateral for a bond.

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

**Positive (Normal) Yield Curve** - A chart formation that illustrates short-term securities having lower yields than long-term securities.

**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 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 and banks.

**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. Also, may refer to the amount of capital invested in a given security.

**Private Placements:** Securities that do not have to be registered with the Securities and Exchange Commission because they are offered to a limited number of sophisticated investors.

**Prospectus** - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

**Range Notes:** Notes which pay interest only if the underlying index upon which it is benchmarked, falls within a certain range.

**Real Adjustment:** When a specific metric or economic indicator is adjusted for inflation.

**Regional Dealer:** Non-Primary broker-dealers and banks, which transact in the fixed-income markets.

**Regular Settlement:** Securities settlement that calls for delivery and payment on the next business day following the trade day for government securities and the second business day following the trade date for corporate and municipal securities. Money market funds and money market instruments are settled on a same day basis.

**Reinvestment Risk:** The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

**Repurchase Agreement (Repo or RP):** An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

**Reverse Repurchase Agreement (Reverse Repo):** An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

**Rule 2a-7 of the Investment Company Act:** Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13- month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar (\$1.00).

**Safekeeping:** The holding of assets (e.g., securities) by a financial institution.

**Secondary Market:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**Securities and Exchange Commission (SEC):** The government agency that regulates and supervises the securities industry. The commission administers federal law, formulates and enforces rules to protect against malpractice, and seeks to ensure that companies provide the fullest possible disclosure to investors. All of the national exchanges and virtually all institutions in the securities industry fall under its jurisdiction.

**SEC RULE 15(C)3-1:** See Uniform Net Capital Rule.

**Securities Lending:** Securities lending is when entities transfer or “loan” their securities to broker-dealers in return for cash collateral and simultaneously agree to return the collateral in exchange for the same securities in the future. Entities then invest the cash received as collateral in allowable investments, such as commercial paper, at a rate that exceeds the “rebate” or loan rate paid to the broker-dealer for the cash collateral. These transactions are structured to result in earning an incremental income on a portion of the investment portfolio. The amount of securities loaned from the portfolio and the income generated is dependent upon market conditions.

**Security Swap:** Selling one asset and buying another.

**Securities Industry and Financial Markets Association (SIFMA):** SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets.

SIFMA was formed in 2006, from the merger of the Bond Market Association and the Securities Industry Association. SIFMA also provides a recommended holiday schedule for the U.S. financial markets.

**Standard and Poor's (S&P):** A company that as one of its services, analyzes and rates securities (similar to Moody's Investors Service).

**Standard of Prudence:** An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices. Generally, the Prudent Person and Prudent Investor are used, with the Prudent Investor being more relevant to state and local governments.

**Stated Final Maturity:** The date when the final principal amount of a note, draft, or other debt instrument becomes due and is repaid to the investor.

**Straight Line Amortization:** A common method of calculating accretion or amortization of a discount or premium security to par or 100 from the purchase date to the maturity date. It is calculated by dividing the discount/premium amount by the number of days to maturity, without regard to a security's day count convention.

**Structured Notes:** Notes issued by Government Sponsored Enterprises (FHLB, FNMA, 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.

**Structured Overnight Financing Rate (SOFR):** SOFR is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. The SOFR includes all trades in the Broad General Collateral Rate plus bilateral Treasury repurchase agreement (repo) transactions cleared through the Delivery-versus-Payment (DVP) service offered by the Fixed Income Clearing Corporation (FICC), which is filtered to remove a portion of transactions considered "specials".

The SOFR is calculated as a volume-weighted median of transaction-level tri-party repo data collected from the Bank of New York Mellon as well as GCF Repo transaction data and data on bilateral Treasury repo transactions cleared through FICC's DVP service, which are obtained from DTCC Solutions LLC, an affiliate of the Depository Trust & Clearing Corporation. Each business day, the New York Fed publishes the SOFR on the New York Fed website at approximately 8:00 a.m.

**Supranational:** A supranational entity is formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds. The three U.S. based supranationals are International Bank for Reconstruction and Development, the International Finance Corporation, and the Inter-American Development Bank.

**Total Return:** The sum of all investment income plus realized and unrealized gain and losses.

**Trade Reporting and Compliance Engine (TRACE):** TRACE is the FINRA-developed vehicle that facilitates the mandatory reporting of over-the-counter secondary market transactions in



eligible fixed income securities. All broker-dealers who are FINRA member firms have an obligation to report transactions in corporate bonds to TRACE under an SEC-approved set of rules.

**Treasury Bills:** Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of \$10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

**Treasury Notes:** Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from \$1,000 to \$1 million or more.

**Treasury Bonds:** Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of \$1,000. Currently, the longest outstanding maturity for such securities is 30 years.

**Uniform Net Capital Rule:** SEC Rule 15C3-1 outlining capital requirements for broker/dealers who must maintain a maximum ratio of indebtedness to liquid capital of 15 to 1. Indebtedness covers all money owed to a firm, including margin loans, and commitments to purchase securities (one reason new issues are spread among members of underwriting syndicates). Liquid capital includes cash and assets easily converted to cash.

**Volatility:** A degree of fluctuation in the price and valuation of securities.

**Volatility Risk Rating:** A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns to those that are highly sensitive with currently identifiable market volatility risk.

**Warrant:** In finance, a warrant is a security that entitles the holder to buy the underlying stock of the issuing company at a fixed price called exercise price until the expiry date. Warrants and options are similar in that the two contractual financial instruments allow the holder special rights to buy securities. In accounting, a warrant sometimes similar to a check or an instrument to present for payment.

**Weighted Average Life (WAL):** The average number of years that each dollar of unpaid principal due on loan, asset-backed security, or mortgage-backed security remains outstanding. WAL delineates how many years it will take to pay half of the outstanding principal.

**Weighted Average Maturity (WAM):** The average maturity of all the securities that comprise a portfolio, weighted by the individual securities.

**When Issued:** A transaction that is made conditionally because a security has been authorized but not yet issued. Treasury securities, stock splits, and new issues of stocks and bonds are traded on a when-issued basis.

**World Bank:** The World Bank is an international financial institution that provides loans and grants to the governments of poorer countries for the purpose of pursuing capital projects. It comprises two institutions: the International Bank for Reconstruction and Development, and the International Development Association.

**Yield:** The current rate of return on an investment security generally expressed as a percentage of the security's current price.

**Yield-to-Call (YTC):** The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

**Yield Curve:** A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

**Yield-to-Maturity (YTM):** The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

**Yield-to-Worst (YTW):** The YTW is the lowest potential yield that can be received on a bond without the issuer actually defaulting. The YTW is calculated by making worst-case scenario assumptions on the issue by calculating the return that would be received if the issuer uses provisions, including prepayments or calls.

**Zero-Coupon Securities:** Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

**EXHIBIT C**  
**INVESTMENT PROCEDURES MANUAL**

The Investment Procedures Manual is attached.

## INVESTMENT PROCEDURES MANUAL

In accordance with Section 12 of the City's Statement of Investment Policy, the City Treasurer will maintain an Investment Procedures Manual. The Investment Procedures Manual lists operations associated with the placement, settlement, and clearance of all City investments.

The City Treasurer in conjunction with the City's contracted financial advisor ("Financial Advisor"), will plan, execute and report investment activity in compliance with the City's Statement of Investment Policy. The investment procedures are as follows:

1. The City Treasurer will periodically discuss cash inflows and outflows with the City management to identify dates of when maturities are needed to provide liquid funds and meet the City's Statement of Investment Policy's parameters.
2. On behalf of the Treasurer, the Financial Advisor will perform the following duties.
  - a. Seek securities which meet cash flow needs.
  - b. After cash flow needs are met, seek securities which provide additional relative value to the portfolio's yield and duration.
  - c. Obtain offers to purchase, or bids if selling, securities which meet the above mentioned criteria.
3. On behalf of the Treasurer, the Financial Advisor will perform the following duties.
  - a. Contact the City Treasurer to review and either approve or disapprove the transaction.
  - b. If City Treasurer directs that a security be sold, place the security out for bid with at least three broker/dealers in compliance with the competitive bid requirement.
  - c. Execute the trade at the most advantageous price.
  - d. Send trade ticket to the City Treasurer for signature.
  - e. Send signed trade ticket to the custodian and the City's Financial Services Department for settlement.
  - f. Send signed trade packet to the City Treasurer
4. City Treasurer will review wire transfers by the City's Financial Services Department to the custodian for settlement.
5. On behalf of the Treasurer, the Financial Advisor will perform the following duties.
  - a. Monitor and verify the settlement of the transaction.
  - b. Input trading activity into the investment accounting system.
  - c. Send Monthly Investment Reports to the City Treasurer
  - d. Include all detailed investment reporting on all Quarterly reports.
  - e. Monitor credit ratings of the securities in the investment pool for compliance with the City's Statement of Investment Policy.
  - f. Analyze the entity, if a security's credit rate drops below allowable ratings..
6. In the event the Financial Advisor determines that a security should be sold due to expected value deterioration, then the Financial Advisor shall seek direction from the City Treasurer.
7. The City Treasurer will send monthly investment reports to the Mayor and City Council, City Manager, City Clerk, and Director of Financial Services.
8. The City Treasurer will present quarterly investment reports to the City Budget and Finance Commission, and to the Mayor and City Council.
9. Annually, the City Treasurer will present this Investment Procedures Manual and the City's Statement of Investment Policy to the City Budget and Finance Commission and to the Mayor and City Council for review and adoption.