

City of Thousand Oaks

Administrative Policies and Procedures

SUBJECT: Investment Policy	APP NO.: 14.012 Submission Date: 09/24/96	AUTHORITY: Adoption/Approval Date: Revised Annually; 01/14/20
DEPARTMENT: FIN	Revision Dates: Revised Annually; see file for previous revisions dates	Revision Dates:

1.0 Policy:

This policy is intended to provide guidelines for the prudent investment of the City's funds and to enhance the economic status of the City while protecting its pooled cash. Funds will be invested in accordance with this policy and with applicable sections of the California Government Code.

The City's policy received the Association of Public Treasurers of the United States and Canada's Investment Policy Certificate of Excellence Award and the certification from the California Municipal Treasurers Association in 2017. The policy should be resubmitted periodically for peer review and certification to confirm compliance with best practices and industry standards. While a certification does not serve as a substitute for review by the Investment Review Committee or adoption by City Council, it does demonstrate staff's due diligence in the preparation and updating of the policy.

2.0 Scope

This policy generally applies to all financial assets of the City which are included in the City's Comprehensive Annual Financial Report (CAFR). The City funds subject to this policy are: General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds, Trust and Agency Funds, and any other fund authorized by the City Council, unless specifically exempted.

The following assets are exempt from the policy: proceeds of City bond issues which are invested in accordance with the applicable trust indenture or fiscal agent agreement, the City's Hourly/Part-time Employee Retirement Plan which is invested in accordance with its trust fund agreement, the City's Other Postemployment Benefits Plan which is invested in accordance with the Agreement and Election, and assets held by the City as fiduciary for other agencies and subject to separate agency agreement(s).

All monies shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective average balances relative to the total pooled balance in the portfolio. Investment income shall be distributed to the individual funds not less than annually.

3.0 Objectives

The primary objectives of the City's investment activities, in priority order, shall be:

- 3.1. SAFETY:** Preserving and protecting principal is the foremost objective of the investment program. Investment activities shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. Diversification of the portfolio will spread credit risk over a variety of authorized investment types.
- 3.2. LIQUIDITY:** The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements which can be reasonably anticipated.

- 3.3. YIELD (Return on Investments):** The City's investment strategy shall be designed with the objective of obtaining a market rate of return over budgetary and economic cycles while complying with the list of authorized investments.

4.0 Delegation of Authority/Procedures

Authority to manage the City's investment program is derived from State of California Government Code Section 53607 and City of Thousand Oaks Ordinance 889-NS. Management responsibility for the investment of City funds is delegated annually by City Council to the City Treasurer who shall be responsible for all transactions undertaken and who shall establish a system of controls to regulate the activities of subordinate investment officers.

The Treasurer shall establish written investment procedures for the operation of the investment program consistent with this policy. The procedures should describe custody/safekeeping agreements, repurchase agreements, wire transfer agreements, banking services agreements, cash flow forecasting and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

5.0 Prudence

The standard of prudence to be used for managing the City's investments shall be California Government Code Section 53600.3, the prudent investor standard, which states "when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The standard of prudence to be used by City staff shall be applied in the context of managing the overall portfolio. City staff acting in accordance with written procedures and this policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes. City staff shall ensure that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

6.0 Ethics and Conflicts of Interest

City staff involved in the investment program shall refrain from personal business activity that could conflict with the proper execution of the investment program activities, or which could impair the ability to make impartial investment decisions. City staff shall disclose to the City Manager and on the annual Statement of Economic Interest Form any material financial interests in financial institutions that conduct business with the City, and they shall disclose any material personal financial/investment positions that could be related to the City's investment performance.

7.0 Providers of Financial Services

The Treasurer shall maintain a list of financial institutions formally authorized to provide investment services. The City shall enter into formal contracts for banking services, safekeeping services and investment advisory services.

7.1 Authorized Broker/Dealers

The Treasurer shall formally authorize investment broker-dealers to provide investment services to the City. Investment brokers-dealers may be primary dealers or regional brokers with branch offices in the State of California performing the transactions with the City. Broker-

dealers must complete a broker-dealer statement of qualifications before being approved by the Treasurer. Annually the broker/dealers will acknowledge receipt and execute a certification that the broker-dealer's employees and supervisory personnel have read and understand the City's investment policy. The Treasurer may periodically reevaluate the approved list of investment broker-dealers, including review of Financial Industry Regulatory Authority (FINRA) reports and requesting updated statements of qualification.

7.2 Contracted Investment Advisor Services

The City may engage the support services of outside investment advisors in regard to its investment program, so long as it can be clearly demonstrated that these services produce a net financial advantage or necessary financial protection of the City's financial resources. Investment advisors shall follow this policy, State law, and other such written instructions as provided by the Treasurer. Contracted investment advisors may use their own brokers. The Treasurer may conduct periodic reviews of contracted investment advisors, including review of FINRA reports.

7.3 Safekeeping and Custody

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.

The purchase and sale of negotiable securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. Negotiable securities purchased by the City will be delivered by book entry and will be held in third-party safekeeping by a City-approved custodian bank, its correspondent bank or its Depository Trust Company (DTC) participant account.

Non-negotiable investments such as money market funds, mutual funds, collateralized bank deposits, county investment pools, joint powers authority agreements, and the Local Agency Investment Fund (LAIF) will be in the name of City with statements and/or receipts evidencing investment.

7.4 Banking Services

Banking services for the City shall be provided by qualified depositories of public funds as defined in California Government Code Section 53630.5 and which secure deposits in excess of insurance coverage in accordance with California Government Code Section 53652.

8.0 Authorized Investments

All investments and deposits of the City shall be made in accordance with California Government Code Sections 16429.1-16429.4, 53600-53610 and 53630-53686, except that pursuant to California Government Code Section 5903(e), proceeds of bonds and any moneys set aside or pledged to secure payment of the bonds may be invested in securities or obligations described in the ordinance, resolution, indenture, agreement, or other instrument providing for the issuance of the bonds.

Percentage limitations and rating requirements, where indicated, apply at the time of purchase. Although minimum ratings listed use Standard and Poor's rating scale, an equivalent rating from another nationally recognized rating organization is acceptable. Appendix A provides a comparison of the different credit ratings. Securities that have been downgraded to a level that is below the minimum rating described herein may be sold or held at the Treasurer's discretion. The portfolio will be brought back into compliance with policy guidelines as soon as it is practical. Maximum maturity limits are from date of settlement. Investments with maturities exceeding five years require either specific

authorization by the City Council or approval by the City Council as part of an investment program no less than three months prior to purchase.

Investments not specifically listed below are deemed inappropriate and are prohibited:

8.1 City Authorized Investments

Authorized Investment	Govt. Code	Maximum Percentage	Maximum Maturity	Minimum Quality ¹	Other Constraints
U.S. Treasury Obligations	53601(b)	<ul style="list-style-type: none"> • No Limit 	5 Years	None	Notes, bonds, bills.
U.S. Agency Obligations	53601(f)	<ul style="list-style-type: none"> • No Limit 	5 Years	None	Federal agency or U.S. government sponsored enterprise obligations, participations, or other instruments.
City of Thousand Oaks Bonds	53601(a)(e)	<ul style="list-style-type: none"> • 5% 	5 Years	None	<ul style="list-style-type: none"> • Bonds, notes, warrants or other evidences of indebtedness • Purchases made in consultation with bond counsel
State Obligations (CA and others)	53601(c) and (d)	<ul style="list-style-type: none"> • No Limit 	5 Years	Underlying A, SP-1	<ul style="list-style-type: none"> • Registered state warrants, treasury notes or bonds of California. • Registered treasury notes or bonds from any of the other 49 states.
California Local Agency Bonds	53601(e)	<ul style="list-style-type: none"> • No Limit 	5 Years	Underlying A, SP-1	Bonds, notes, warrants or other evidences of indebtedness of any local agency within California.
Supranationals	53601(q)	<ul style="list-style-type: none"> • 20% of portfolio • 10% single issuer 	5 years	AAA	<p>U.S. dollar denominated senior unsecured unsubordinated obligations issued by or unconditionally guaranteed by:</p> <ul style="list-style-type: none"> • International Bank for Reconstruction and Development • International Finance Corporation • Inter-American Development Bank

Authorized Investment	Govt. Code	Maximum Percentage	Maximum Maturity	Minimum Quality ¹	Other Constraints
Medium-Term Notes	53601(k)	<ul style="list-style-type: none"> • 30% of portfolio • 5% single issuer 	5 Years	A	<p>Issued by</p> <ul style="list-style-type: none"> • corporations organized and operating in the United States <p>or</p> <ul style="list-style-type: none"> • depository institutions licensed by the United States or any state and operating in the United States. <p>and</p> <ul style="list-style-type: none"> • Private Placements (including Rule 144A securities) are NOT permitted.
Negotiable Certificates of Deposit	53601(i)	<ul style="list-style-type: none"> • 10% of portfolio • \$250,000 single issuer 	5 Years	Investments with a single issuer may not exceed \$250,000 and must be insured by the Federal Deposit Insurance Corporation (FDIC)	<ul style="list-style-type: none"> • Issued by nationally or state-chartered banks; savings or federal associations; state or federal credit unions; or federally licensed or state licensed branches of foreign banks. <p>and</p> <ul style="list-style-type: none"> • Per 53638 deposits may not exceed bank shareholder equity; total net worth of depository savings or federal association; unimpaired capital and surplus of a credit union; unimpaired capital and surplus of industrial loan companies.
Bankers' Acceptances	53601(g)	<ul style="list-style-type: none"> • 40% of portfolio • 5% single issuer 	180 Days	A-1	

Authorized Investment	Govt. Code	Maximum Percentage	Maximum Maturity	Minimum Quality ¹	Other Constraints
Commercial Paper	53601(h)	<ul style="list-style-type: none"> • 25% of portfolio • 5% single issuer 	270 Days	A-1	<ul style="list-style-type: none"> • Corporation must be organized and operating within the United States; have assets in excess of \$500 million; and have at least an A rating on its long-term debt, if any; <p>or</p> <ul style="list-style-type: none"> • Corporation must be organized within the United States as a special purpose corporation, trust, or limited liability company; have program-wide credit enhancements including, but not limited to overcollateralization, letters of credit or a surety bond. <p>and</p> <ul style="list-style-type: none"> • 5% of the outstanding commercial paper from a single issuer <ul style="list-style-type: none"> • Private Placements (including Rule 144A securities) are NOT permitted.
Repurchase Agreements	53601(j)	25% of portfolio	30 Days	N/A	<ul style="list-style-type: none"> • Subject to a Master Repurchase Agreement with a Primary Dealer approved by City Council; • Comply with Government Code 53601 (j).

Authorized Investment	Govt. Code	Maximum Percentage	Maximum Maturity	Minimum Quality ¹	Other Constraints
Bank Deposits – Collateralized or FDIC Insured	53630 et seq.	No Limit	5 Years	Satisfactory rating from national bank rating service and from CRA review.	<ul style="list-style-type: none"> • Amounts up to \$250,000 per institution are insured by the FDIC; • Amounts over the insurance limit must be placed with financial institutions participating in the California Local Agency Security Program, providing for collateralization of public funds. • Per 53638 deposits may not exceed bank shareholder equity; total net worth of depository savings or federal association; unimpaired capital and surplus of a credit union; unimpaired capital and surplus of industrial loan companies. • Treasurer may waive collateral for the portion of any deposits insured pursuant to federal law. • The use of private sector entities authorized by 53601.8 to assist in the placement of deposits are NOT permitted.
LAIF	16429.1 et seq.	As permitted by LAIF	N/A	N/A	
County Pooled Investment Funds	53684	<ul style="list-style-type: none"> • 20% of portfolio 	N/A	None	
Joint Powers Authority Pool	53601(p)	<ul style="list-style-type: none"> • 15% of portfolio • 10% from single pool or maximum allowed by JPA whichever is less 	N/A	None	<p>JPA must be</p> <ul style="list-style-type: none"> • organized pursuant to Section 6509.7; • invest in securities in 53601 subdivisions (a) to (q); and • retain investment advisor registered or exempt from registration with the SEC, with at least 5 years' experience, and has assets under management in excess of \$500 million.

Authorized Investment	Govt. Code	Maximum Percentage	Maximum Maturity	Minimum Quality ¹	Other Constraints
Money Market Funds	53601(l)	<ul style="list-style-type: none"> • 15% of portfolio 	N/A	Fund must either have the highest ranking by not less than 2 NRSROs	Retain an investment adviser registered or exempt from registration with the SEC with 5 years' experience managing money market funds in excess of \$500 million.
Mutual Funds	53601(l)	<ul style="list-style-type: none"> • 15% of portfolio • 5% from single mutual fund company 	N/A	Fund must either have the highest ranking by not less than 2 NRSROs	<ul style="list-style-type: none"> • Fund must invest in securities that comply with the investment restrictions of 53601 (a) through (k) and (n) through (o); and • Retain an investment adviser registered or exempt from registration with the SEC with 5 years' experience managing money market funds in excess of \$500 million.

¹ Standard and Poor's rating system is used for minimum quality requirements. An equivalent rating from another nationally recognized rating organization is acceptable. Appendix A. provides a comparison of the different credit ratings.

9.0 Ineligible Investments

Investments not described above as authorized investments are ineligible for purchase. The policy specifically prohibits the investment of any funds in common stock, financial futures, options, inverse floaters, range notes, or mortgage-derived, interest-only strips. Government Code Section 53601.6 also prohibits the investment in any security that could result in zero interest accrual if held to maturity. Per the California Debt and Investment Advisory Commission, zero interest accrual is defined as a security having the potential to realize zero interest based on the structure of the security. Therefore, zero coupon bonds, discounts notes, and similar investments that are purchased below face value are authorized. This Section does not apply to investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 that are authorized pursuant to Government Code Section 53601(l).

10.0 Collateralization

Collateralization is required on two types of investments: uninsured bank deposits and repurchase agreements.

Uninsured bank deposits may only be invested with financial institutions which participate in the California Local Agency Security Program (LASP) administered by the California Department of Business Oversight. LASP provides for collateral requirements, oversight and monitoring, and reporting by financial institutions.

Collateral is also required for repurchase agreements. The market value of securities that underlie a repurchase agreement shall not be allowed to fall below 102% of the value of the repurchase agreement and the value shall be adjusted no less than quarterly. Securities that can be pledged for collateral

shall consist only of securities permitted in this policy. Collateral shall be held by an independent third party with whom the City has established a custodial agreement.

11.0 Investment Pools

Investment pools include LAIF, county pooled investment funds, shares of beneficial interest (mutual funds and money market funds), and joint powers authority pools. A thorough investigation of any pool or fund is required prior to the City's investment and on a periodic basis while funds are invested. The investigation will include review of the following items:

- Eligible investments;
- Investment policy and/or investment objectives;
- Security safeguarding, settlement process, pricing;
- Allowable deposits and withdrawals;
- Interest calculation, distribution, and treatment of gains/losses;
- Schedule for receiving statements and portfolio listings;
- Fees.

12.0 Review of Portfolio

The securities held by the City must be in compliance with the authorized investments in Section 8.0 at the time of purchase. Because the City is typically a buy and hold investor, some securities may not comply with this section subsequent to the date of purchase. The Treasurer shall at least quarterly review the portfolio to identify those securities that do not comply and establish procedures to report these securities to the City Council and the Investment Review Committee.

13.0 Competitive Offers

It is preferred that investment purchases be made through a competitive offer process with three quotes. This policy, however, recognizes that competitive offers may not always be applicable or practical. If the City is offered a security for which there is no other readily available competitive offering on the same issue, then quotes for comparable or alternative securities will be documented. Competitive quotes are not required for U.S. Treasury instruments if the offer is within one quarter of a thirty-second of the offer price as posted by Bloomberg or similar pricing service. When purchasing original issue securities, competitive offerings are not required as those securities are offered at the same original issue price.

14.0 Diversification

The Treasurer shall diversify the investment portfolio by security type, institution, and maturity. The restriction on concentration in a single security type or institution is detailed in Section 8.0.

15.0 Maturities

Individual investments within the investment portfolio are limited to a maximum of five years except where further limited by State Law and/or this policy. The City is a "buy and hold" investor whereby securities are purchased with the intent of being held until maturity. Maturities will be matched with the City's cash flow requirements. After cash flow requirements are met, investment considerations will include seeking additional yield that may be available in the market.

16.0 Internal Controls

The City Treasurer shall maintain a system of internal controls designed to prevent losses due to fraud, employee error, imprudent actions by employees, misrepresentation by third parties or unanticipated changes in financial markets.

The City Manager's Office, at least quarterly, shall randomly select line items from the investment report and send the City's custodian or investment provider an independent confirmation letter to verify information about the investment.

Annually, the City's independent auditor will conduct an independent review of investment records and verify the investments have been made in accordance with this policy.

17.0 Performance Standards

Investment return or yield becomes a consideration only after the basic requirements of investment safety and liquidity have been met. The City's portfolio shall be designed to attain a competitive yield or rate of return. At least quarterly, the portfolio yield will be compared to the twelve-month moving average of the two-year Constant Maturity Treasury Index (CMT).

18.0 Investment Review Committee

In 1997 an investment committee consisting of five members appointed by the City Council was established to act as an advisory committee to Council. The Investment Review Committee periodically monitors and reviews the Treasurer's compliance with the investment policy. In addition, the committee reviews modifications and recommends amendments to the investment policy. The Treasurer is not a member of the committee but serves in a staff and advisory capacity. The committee meets at least quarterly.

19.0 Reporting

Within 30 days of the end of each month, the Treasurer shall submit the monthly investment report to the City Manager and City Council. At the end of each quarter, the report is presented to the Investment Review Committee at its meeting.

The report shall list each investment by investment category and include: (1) purchase and maturity dates, (2) yield, (3) original cost, (4) par value, and (5) market value. In addition, the report will provide a weighted average yield of the portfolio, the weighted average maturity of the portfolio and the monthly investment transactions.

20.0 Policy Review and Adoption

The investment policy shall be reviewed at least annually by the Treasurer and the Investment Review Committee to ensure its consistency with the City's overall objectives and its compliance with California Government Code and best practices. The investment policy shall be submitted to City Council for consideration and adoption at a public meeting on an annual basis whether or not modifications are necessary.

21.0 Glossary

Agencies: Securities issued by federally related institutions and/or U.S. government-sponsored entities.

Bankers' Acceptance (BA): Time draft drawn on and accepted by a bank for a specified amount payable on a specified date. Generally drawn for effecting payment for merchandise sold in import-export transactions. The BA is collateralized by commodity products.

Benchmark: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Bond Discount: When a bond is sold at a price below its par value.

Bond Rating: Letter classification of a bond's investment quality provided by nationally recognized rating organization.

Bond: Interest-bearing security issued by a corporation, government, government sponsored enterprise, which can be executed through a bank or trust company. The issuer covenants through an indenture or offering memorandum to pay to the bond holder periodic interest payments and principal at maturity. The bond may be secured by specific assets of the issuer or the general credit of the issuer.

Broker-dealer: Individual or firm which acts as a principal in security transactions. The City only conducts transactions with approved broker-dealers who meet the requirements of the investment policy.

Callable Bond or Note: Embedded option allowing the issuer to redeem the bond or note prior to its stated maturity.

Certificate of Deposit: Debt instrument issued by a bank or other financial institution that pays interest over a fixed term to maturity.

Collateral: Securities which a borrower pledges for the repayment of a loan or securities lending transaction. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: Short term, unsecured, negotiable promissory notes issued by domestic corporations.

Community Reinvestment Act (CRA): Act intended to encourage depository institutions to meet the credit needs of the communities in which they operate, including low and moderate income neighborhoods. The Act requires that each depository institution's record in helping meet the credit needs of its entire community be evaluated periodically. CRA examinations are conducted by the federal agencies that are responsible for supervising depository institutions.

Comprehensive Annual Financial Report (CAFR): The official annual financial report for the City of Thousand Oaks.

County Pooled Investment Funds: The aggregate of all funds from public agencies placed in the custody of the county treasurer or chief finance officer for investment and reinvestment.

Credit Risk: The risk that an issuer will default in the payment of interest or principal due on a security.

Debenture: Bond or note secured by the general credit of an issuer.

Delivery vs. Payment (DVP): Method of delivering securities. The purchased securities and the related payment are delivered by the buyer and seller to a third-party custodian who settles the transaction and maintains custody of the security on behalf of the purchaser.

Discount: When securities are sold below its par value. Some new issue securities such as Agency discount notes and U.S. Treasury Bills are sold at a discount to the par value and the purchaser receives the par value at maturity.

Diversification: Process of investing assets among a range of security types by sector and maturity.

Federal Deposit Insurance Corporation (FDIC): Federal Agency that guarantees funds on deposit in member banks, currently up to \$250,000 per entity.

Federal Farm Credit Bank: Government sponsored institution that consolidates the financing activities of cooperative lending institutions that provide credit services to farmers, agricultural cooperatives and rural utilities.

Federal Home Loan Banks: Government sponsored wholesale banks which lend funds and provide correspondent banking services to members.

Federal Home Loan Mortgage Association (Freddie Mac): Publicly owned, government-sponsored corporation established to provide credit and liquidity in the housing market. Issues discount notes, bonds and mortgage pass-through securities.

Federal National Mortgage Association (Fannie Mae): Publicly owned, government-sponsored corporation established to provide credit and liquidity in the housing market. Issues discount notes, bond and mortgage pass-through securities.

Government Bonds (“Governments”): Securities issued by the U.S. Treasury and backed by the “full faith and credit” of the U.S. Government.

Indenture or Fiscal Agent Agreement: Contract between an issuer, trustee or fiscal agent for the holders of an issuer’s securities.

Inter-American Development Bank: Enterprise supporting economic development, social development and regional integration by lending to governments and government agencies.

Interest Rate: The annual rate of interest received by an investor from the issuer for a security. Also known as “coupon” rate.

International Bank for Reconstruction and Development: International lending organization, popularly known as the World Bank, with long-term, low-interest credit for industrial development.

International Finance Corporation: The private sector arm of the World Bank Group dedicated to encouraging development of private enterprise in nations lacking the necessary infrastructure and liquidity for businesses to secure financing.

Investment Portfolio: Collection of securities held by the City for investment purposes.

Investment Review Committee (IRC): Five-member committee appointed by the City Council. The IRC meets quarterly and reviews reports prepared by the City Treasurer.

Joint Powers Authority Pool: An entity formed by two or more public authorities, operating collectively may issue shares of beneficial interest to participating agencies.

Liquidity: The ability of the City Treasurer to meet the City’s cash flow and expenditure requirement by liquidating securities in the Investment Portfolio.

Local Agency Investment Fund (LAIF): Investment pool maintained by the California State Treasurer for investment by local agencies.

Local Agency Security Program (LASP): Under California code, financial institutions that accept local agency deposits must participate in the LASP. The program provides for collateralization of deposits and reporting requirements.

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

Master Repurchase Agreement: Agreement under which a buyer and seller execute Repurchase Agreements. The agreement covers ownership of securities, custody and remedies from default.

Maturity: The date that the principal of a security is due and payable.

Medium-Term Notes (MTN): Unsecured, investment-grade senior debt securities of major corporations that are sold either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or investor preferences.

Minimum Quality: The lowest acceptable rating of an investment issued by a Nationally Recognized Statistical Rating Organization indicating creditworthiness.

Money Market Fund: A mutual fund with investments directed in short-term money market instruments such as bankers' acceptances, commercial paper, repurchase agreements and government bills. The fund's objective is to maintain a net asset value (NAV) per share of \$1.00. Registered with the Securities and Exchange Commission under the Investment Act of 1940.

Money Market Instruments: Corporate and government obligations of one year or less. These include U.S. Treasury Bills, Agency Discount Notes, Commercial Paper, Bankers' Acceptances and Mutual Funds.

Mortgage-Backed Securities (MSB): A debt instrument with a pool of real estate loans as the underlying collateral. The mortgage payments of the real estate assets are used to pay the principal and interest.

Mortgage Pass-Through Obligations: A securitized participation in the principal and interest cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

Mutual Funds: Pools of money that are managed by an investment company. Investors are offered a variety of goals, depending on the fund and its investment charter. Must invest in securities and obligations as authorized by California Government Code Section 53601 subdivisions (a) through (k) or (m) through (n).

Nationally Recognized Statistical Rating Organizations (NRSRO): A SEC registered agency that assesses the creditworthiness of an entity or specific security. NRSRO typically refers to Standard and Poor's Rating Service, Fitch, Inc. or Moody's Investors Services.

Non-Callable: Security that does not have an embedded option allowing the issuer to redeem or call the security prior to its stated maturity date. Sometimes referred to as bullets.

Offer: The price asked by a seller of securities.

Options: Provision of a security allowing the issuer or holder to exercise the option at their discretion.

Original Cost: The price paid for a security.

Par Value: The face value of a security expressed as a dollar amount. This is the amount due at maturity.

Portfolio: The combined holding of more than one investment or other asset by investor; collection of investments.

Primary Dealer: Usually refers to the select list of securities firms that are authorized to deal in new issues of government bonds.

Principal: The face or par value of a security. It does not include interest.

Prudent Investor Standard: A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in such a situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

Rating: The designation used by investors' services to rate the quality of a security's creditworthiness.

Repurchase Agreement (RP or REPO): An agreement of one party (financial institution) to sell securities to a second party (local agency) and a simultaneous agreement by the first party to repurchase the securities at a specified price from the second party on demand or at a specified date.

Safekeeping: Service banks offer to customers where securities are held in the bank's vaults for safekeeping.

Settlement Date: The date by which an executed security trade must be settled. That is, the date by which a buyer must pay for the securities delivered by the seller.

Supranational: An organization formed by a group of countries through an international treaty with specific objectives, such as promoting economic development.

Structured Notes: Issued by Government Sponsored Enterprises and corporations which have embedded options including call features, step up coupons, floating rate coupons and derivative based returns.

Trustee: Bank designated as the custodian of funds and the official representative for bond holders. The trustee is responsible for enforcing the provisions of the Indenture.

Treasury Bills: Short term obligation of the U.S. Treasury with a maturity of one year or less. T-Bills are sold at a discount and bear no interest.

Treasury Bonds: Long term coupon bearing obligation of the U.S. Treasury with maturities of more than 10 years,

Treasury Notes: Medium-term coupon bearing obligation of the U.S. Treasury having initial maturities from two to 10 years.

Yield: The annual rate of return on an investment, expressed as a percentage of the investment.

Appendix A

Comparison of Credit Ratings¹

Long Term Debt Ratings

Rating/Interpretation	Standard & Poor's²	Moody's³	Fitch⁴
Best-quality Grade ("AAA")	AAA	Aaa	AAA
High-quality Grade ("AA")	AA+ AA AA-	Aa1 Aa2 Aa3	AA+ AA AA-
Upper Medium Grade ("A")	A+ A A-	A1 A2 A3	A+ A A-
Medium Grade ("BBB")	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-
Speculative Grade ("BB")	BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-
Highly Speculative Grade ("B")	B+ B B-	B1 B2 B3	B+ B B-
Poor Grade	CCC+	Caa1	CCC
In Poor Standing	CCC CCC-	Caa2 Caa3	
Highly Speculative	CC C	Ca C	CC
Default	D		DDD DD D

Short Term/Commercial Paper Investment Grade Ratings

Rating Interpretation	Standard & Poor's	Moody's	Fitch
Superior Capacity	A-1+/A-1/SP-1	P-1/MIG1	F1+/F1
Strong Capacity	A-2/SP-2	P-2/MIG2	F2
Acceptable Capacity	A-3/SP-3	P-3/MIG3	F3

¹ These are general credit rating guidelines and are for information only.

² Ratings from AA through CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

³ Ratings from Aa through Caa may be appended by the numerical modifiers 1, 2, and 3 indicating the obligation ranks at the higher end, the mid-range or lower-end of the generic rating.

⁴ Ratings from AA through B may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.