

## STATEMENT OF INVESTMENT POLICY FOR THE CITY OF DUBLIN

### I. INTRODUCTION

This Statement of Investment Policy is intended to identify various policies and procedures that will foster a prudent and systematic investment program designed to seek the City's objectives of safety, liquidity and return through a diversified investment portfolio. This policy also serves to organize and formalize the City's investment-related activities, while complying with all applicable status governing the investment of public funds.

### II. SCOPE

This policy covers all funds and investment activities under the direct authority of the City of Dublin, as set forth in the State Government Code, sections 53600 et seq., excluding any bond-related proceeds or reserves, which are governed by their bond indentures. Cash held by the City shall be pooled in order to more effectively manage City cash resources. All pooled funds are accounted for in the City's Comprehensive Annual Financial Report and include:

#### Funds

General Fund

Special Revenue Funds

Capital Project Funds

Internal Service Funds

Enterprise Funds

Agency Funds

This original investment policy was adopted by the City of Dublin (the "City"), on August 21, 2007. This update to the Policy is effective on September 16<sup>7</sup>, 2025<sup>4</sup> and replaces any previous versions.

### III. OBJECTIVES

The overall program shall be designed and managed with a degree of professionalism worthy of the public trust. The primary objectives, in order of priority, of the City's investment activities shall be:

- 1) *Safety*: Safety of principal is the foremost objective of the investment program. The City's investments shall be undertaken in a manner that seeks to safeguard the principal of the funds under its control by maintaining an appropriate risk level.

- 2) *Liquidity*: The City's investment portfolio will remain sufficiently liquid to enable the City to meet its reasonably anticipated cash flow requirements.
- 3) *Return*: Return should become a consideration only after the basic requirements of safety and liquidity have been met. The City seeks to attain market average rate of return on its investments throughout economic cycles, consistent with constraints imposed by its safety objectives and cash flow considerations.
- 4) *Diversification*: The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. This shall also conform with applicable sections of the Government Code.

#### **IV. DELEGATION OF AUTHORITY**

As authorized in Government Code Section 53607, the City Council delegates the authority to invest funds of the City to the City Treasurer and/or any duly appointed Deputy City Treasurer. The City Treasurer and any duly appointed Deputy City Treasurer shall make all investment decisions and transactions in strict accordance with State law and this investment policy. The Finance Director shall be designated as the City Treasurer and the City Manager shall be designated as the Deputy City Treasurer. This delegation shall be for a one-year period until the delegation of authority is revoked or expires. The City Council may renew the authority each year as part of an annual review of this policy.

The City Treasurer shall establish procedures for the operation of the investment program. The City Treasurer shall be also responsible for all transactions undertaken and establishing a system of controls to regulate the activities of subordinates.

The City recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of the overall portfolio's return and the cash flow requirements of the City. Authorized individuals acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The City may engage the services of one or more external investment managers to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such external managers may be granted discretion to purchase

and sell investment securities in accordance with this investment policy. Such managers must be registered under the Investment Advisors Act of 1940.

## **V. PRUDENCE**

Pursuant to California Government Code Section 53600.3, all persons authorized to make investment decisions on behalf of the City 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."

## **VI. ETHICS AND CONFLICTS OF INTEREST**

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. Thus, employees and officials involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program or impairs their ability to make impartial investment decisions. Additionally, the City Treasurer and the Deputy Treasurer shall file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC).

## **VII. INTERNAL CONTROLS**

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by City management. Periodically, as deemed appropriate by City management and/or the City Council, an independent analysis by an external auditor shall be conducted to review internal controls, account activity and compliance with policies and procedures.

## **VIII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

To the extent practical the Treasurer shall endeavor to complete investment transactions using a competitive bid process whenever possible. It shall be the City's policy to purchase securities only from authorized institutions and firms. No deposit of public funds shall be made except in a qualified public depository as established by state laws.

Institutions eligible to transact investment business with the City include:

- 1) Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers
- 2) Nationally or state-chartered banks
- 3) The Federal Reserve Bank
- 4) Direct issuers of securities eligible for purchase

The Treasurer shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions which are approved for investment purposes. These may include primary or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-I (uniform net capital rule). The City requires each firm that will be used for the purchase or sale of securities to be evaluated by the Treasurer prior to any investments. The firms shall submit current financial statements, and annual audited financial statements each year thereafter, which are to be evaluated by the Treasurer. At a minimum, the firm must be financially sound and have been in business a minimum of three years. In addition, the firms must provide: proof of National Association of Security Dealers membership, proof of state registration or exemption, and certificate of having read the City's investment policy.

If an investment adviser is retained by the City, then that adviser will be permitted to use their own list of approved broker/dealers and financial institutions for investment purposes.

## **IX. AUTHORIZED AND SUITABLE INVESTMENTS**

The City's investments are governed by Government Code, Sections 53600 et seq. Within the investments permitted by the Government Code, the City seeks to further restrict eligible investments to the guidelines listed below. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters will take precedence. Percentage holding limits listed in this

section apply at the time the security is purchased. Any investment currently held at the time the Policy is adopted which does not meet the new Policy guidelines can be held until maturity, and shall be exempt from the current Policy. At the time of the investment's maturity or liquidation such funds shall be reinvested only as provided in the most current Policy.

An appropriate risk level shall be maintained by primarily purchasing securities that are of high quality, liquid, and marketable. The portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

- 1) United States Treasury Issues. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio that may be invested in this category. The maximum maturity of these securities is ten years. The City Council authorized investments in United States Treasury Issues beyond five years on September 6, 2022.
- 2) Federal Agency Obligations. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There is no limitation as to the percentage of the portfolio that may be invested in this category. However, the portfolio's exposure to any one federal agency issuer is limited to 35 percent of the overall portfolio. The limit of the overall portfolio's exposure to callable federal agency securities is 25 percent. The maximum maturity for agency securities is ten years. The City Council authorized investments in Federal Agency Obligations beyond five years on September 6, 2022.
- 3) Bankers' Acceptances. Bankers' acceptances, otherwise known as bills of exchange or time drafts, that are drawn on and accepted by a commercial bank. Bankers' acceptances must be secured by the irrevocable primary obligation of the accepting domestic bank. Purchasers are limited to issuers whose short-term debt is rated "A- 1" or higher, or the equivalent, by a Nationally Recognized Statistical-Rating Organization (NRSRO). Bankers' acceptances cannot exceed a maturity of 180 days. A maximum of 40 percent of the portfolio may be invested in this category. The amount invested in bankers' acceptances with any one financial

institution in combination with any other debt from that financial institution shall not exceed 20 percent of the portfolio.

- 4) Commercial Paper. Commercial paper of "prime" quality rated "A-1" or higher, or the equivalent, by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):
  - a. The entity meets the following criteria: (i) Is organized and operating in the United States as a general corporation. (ii) Has total assets in excess of five hundred million dollars (\$500,000,000). (iii) Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization.
  - b. The entity meets the following criteria: (i) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) Has program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond. (iii) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization.

Eligible commercial paper shall have a maximum maturity of 270 days or less and not represent more than 10 percent of the outstanding paper of an issuing corporation. A maximum of 25 percent of the portfolio may be invested in this category. Under a provision of the California Government Code sunsetting on January 1, 2026, no more than 40 percent of the portfolio may be invested in Commercial Paper if the Agency's investment assets under management are greater than \$100,000,000. The amount invested in commercial paper of any one issuer in combination with any other debt from that issuer shall not exceed 20 percent of the portfolio.

- 5) Negotiable Certificates of Deposit. Negotiable certificates of deposit (NCDs) issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a state-licensed branch of a foreign bank. Purchases are limited to institutions which have long-term debt rated "A" or better and/or have short-term debt rated at least "A-1" or higher, or the equivalent by a NRSRO. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested in NCDs with any one financial institution in combination with any other debt from that financial institution shall not exceed 20 percent of the portfolio. The maximum maturity of these securities is five years.

- 6) Time Certificates of Deposit. Time Certificates of Deposit (TCDs) placed with commercial banks and savings and loans. The purchase of TCDs from out-of-state banks or savings and loans is prohibited. The amount on deposit shall not exceed the shareholder's equity in the financial institution. To be eligible for purchase, the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided Government Code Section 53635.2. TCDs are required to be collateralized as specified under Government Code Section 53630 et. seq. The Treasurer, at his discretion, may waive the collateralization requirements for any portion that is covered by federal (FDIC) insurance. The City shall have a signed agreement with the depository per Government Code Section 53649. The maximum maturity of these securities may not exceed one (1) year in maturity. A maximum of 10 percent of the portfolio may be invested in this category.
- 7) Mutual Funds and Money Market Mutual Funds that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that,
- a. **MUTUAL FUNDS** that invest in the securities and obligations as authorized under California Government Code, Section 53601 (a) to (k) and (m) to (q) inclusive and that meet either of the following criteria:
    - i. Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
    - ii. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California Government Code, Section 53601 and with assets under management in excess of \$500 million.
    - iii. No more than 10% of the total portfolio may be invested in shares of any one mutual fund.
  - b. **MONEY MARKET MUTUAL FUNDS** registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:
    - i. Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or

- ii. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of \$500 million.
- iii. No more than 20% of the total portfolio may be invested in Money Market Mutual Funds.

c. No more than 20% of the total portfolio may be invested in these securities.

- 8) State of California Local Agency Investment Fund (LAIF). The City may invest up to the maximum as permitted by LAIF. For due diligence, the Treasurer shall maintain on file a copy of LAIF's current Answer Book.
- 9) Joint Powers Authority (JPA) Pools, provided that: The JPA is organized pursuant to California Government Code Section 6509.7 and invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the JPA. The JPA has retained an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (q).
- 10) Medium Term Notes. Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, 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. Purchases are limited to securities rated "A" or higher, or the equivalent, by a NRSRO. A maximum of 30 percent of the City's portfolio may be invested in this category and a maximum of 5 percent with any one issuer. The maximum maturity of these securities is five years.
- 11) Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations, from issuers not defined in the Federal Agency Obligations Subdivision. The City may purchase such securities provided that they are rated "AA" or higher, or the equivalent, by a NRSRO. Purchase of securities authorized by this subdivision may not exceed 20 percent of the portfolio, and a maximum of 5 percent per issue. The maximum maturity of these securities is five years.

12) Municipal Securities. Obligations of the State of California, any of the other 49 states, or any local agency within the State of California, may be purchased by the City provided that long-term obligations are rated "A" or higher, or the equivalent, by at least one NRSRO. There are no limits on the dollar amount or percentage that the city may invest in municipal securities; however, investments in these securities are limited to a maximum of 5 percent with any single issuer. The maximum maturity of these securities is ten years. The City Council authorized investments in Municipal Securities beyond five years on September 6, 2022.

13) Supranationals provided that issues are US 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. The securities must be rated in a rating category of "AA" or its equivalent by a NRSRO. No more than 30% of the portfolio may be invested in these securities, and no more than 10% of the portfolio may be invested in any single issuer. The maximum maturity does not exceed five (5) years.

## **X. AUTHORIZED INVESTMENTS FOR BOND PROCEEDS**

Bond proceeds shall be invested in securities permitted by the applicable bond documents. If the bond documents are silent as to the permitted investments, bond proceeds will be invested in securities permitted by this Policy. Notwithstanding the provisions of the Policy, the percentage or dollar portfolio limitations listed elsewhere in this Policy do not apply to bond proceeds. In addition to the securities listed in Section IX above, bond proceeds may be invested in structured investment products if approved by the Treasurer.

## **XI. PROHIBITED INVESTMENT PRACTICES AND INSTRUMENTS**

[City Investments will be guided by the City's Mission, Vision, and Values and during the annual review of the Investment Policy, the City shall review the portfolio and identify and update prohibited investments as needed.](#)

[The Intercontinental Exchange Bank of America Index Family's classification system will be used to identify business sectors for the purpose of excluding prohibited investment types.](#)

The City will not invest in fossil fuel companies, tobacco or tobacco-related companies and companies that support the production of firearms.

The City will not invest in companies that develop or manufacture commodities that facilitate violence or war.

The City will not invest in companies that engage in border or mass surveillance industries.

The City will not invest in companies that are involved in mass incarceration or detention industries.

The City shall not make investments for the purpose of trading or speculation as the dominate criterion such as anticipation of appreciation of capital value through changes in market rates.

Any investment in a security not specifically listed as an Authorized and Suitable Investment above, but otherwise permitted by the Government Code, is prohibited without the prior approval of the City Council. Section 53601.6 of the Government Code specifically disallows investments in invoice floaters, range notes, or interest-only strips that are derived from a pool of mortgages. Under a provision of the California Government Code sunseting on January 1, 2026, securities backed by the United States Government that could result in a zero or negative interest accrual if held to maturity are permitted.

## **XII. REVIEW OF INVESTMENT PORTFOLIO**

The City Treasurer shall periodically, but no less than quarterly, review the portfolio to identify investments that do not comply with this investment policy and establish protocols for reporting major and critical incidences of noncompliance to the City Council.

## **XIII. TERM OF INVESTMENTS**

Funds of the City will be invested in accordance with sound treasury management principles. It is the objective of this Policy to provide a system which will accurately monitor and forecast revenues and expenditures so that the City can invest funds to the fullest extent possible.

The maximum maturity of individual investments shall not exceed the limits set forth in under Authorized and Suitable Investments. No investment shall exceed a maturity of five years from the date of purchase unless the City Council has granted express authority to make that investment either specifically or as a part of an investment program approved by the City Council no less than three months prior to the investment.

#### **XIV. INVESTMENT RISK**

##### **a. MARKET RISK**

Market risk is the risk that the portfolio will decline in value (or will not optimize its value) due to changes in the general level of interest rates. The City recognizes that, over time, longer-term portfolios achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The City shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making some longer-term investments only with funds that are not needed for current cash flow purposes.

~~The City also prohibits investments in any fossil fuel companies, tobacco or tobacco-related companies, and companies in support of the production of firearms.~~ The City further recognizes that certain types of securities, including variable rate securities, securities with principal pay-downs prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The City, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- i. The maximum stated final maturity of individual securities in the portfolio shall be five years, unless otherwise stated in this policy;
- ii. The City shall maintain a minimum of three months of budgeted operating expenditures in cash, cash equivalents and short-term investments; and
- iii. The duration of the portfolio will typically be approximately equal to the duration of a market index, selected by the City as its performance benchmark, which meets the City's needs for cash flow and level of risk tolerance plus or minus 20%.

##### **b. CREDIT RISK**

In general, the City's portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions, such as credit risk. Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The City shall mitigate credit risk by adopting the following strategies:

- i. The diversification requirements included in Section IX are designed to mitigate credit risk in the portfolio;
- ii. No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.
- iii. The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or return of the portfolio in response to market conditions or the City's risk preferences; and
- iv. If a security owned by the City is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps will be taken:
  1. Any actions taken related to the downgrade by the investment manager will be communicated to the City in a timely manner.
  2. If a decision is made to retain the security, the credit situation will be monitored and reported back to the City.

## **XV. SAFEKEEPING AND CUSTODY**

Investment securities are to be purchased when possible in book-entry form in the City's name. All security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. All cash and securities in the City's portfolio shall be held in safekeeping in the City's name by a third-party bank trust department, acting as agent for the City under the terms of a custody agreement executed by the bank and the City. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by the City from the safekeeping institution listing all securities held in safekeeping with current market data and other information. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) money mutual funds, since the purchased securities are not deliverable. Term and non-negotiable instruments, such as certificates of deposit, can be held by the Treasurer, or in safekeeping as the Treasurer deems appropriate.

## **XVI. PERFORMANCE BENCHMARK**

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments. The Treasurer shall monitor and evaluate the portfolio's performance relative to the market benchmark, which will be included in the Treasurer's quarterly report. The Treasurer shall select an appropriate, readily available index to use as a benchmark.

## **XVII. REPORT INFORMATION**

The Treasurer shall prepare a report to the City Council not less than semi-annually which is available each year within 60 days following December 31st and June 30th. The semi-annual report shall be presented at a subsequent regularly scheduled City Council Meeting. The report shall be inclusive of a monthly listing of investment transactions. At a minimum the report shall include the following (Revised 9-18-2012):

- a. Type of Investment
- b. Issuer
- c. Date of Maturity
- d. Par and dollar amount invested
- e. Current Market Value as of the date of the report
- f. Source of the market value information
- g. A list of investment transactions.
- h. A statement of compliance with the investment policy
- i. A statement as to the ability of the City to meet its expenditure requirements for the next six months

In addition, the City Treasurer will submit a monthly transaction report to the City Council.

## **XVIII. REVIEW OF INVESTMENT POLICY**

This policy shall be subject to review by the City Council on an annual basis, by the second Council meeting in September. Any recommended modifications or amendments shall be presented by Staff to the City Council for their consideration and adoption.

## GLOSSARY OF TERMS

**ACCRUED INTEREST:** Interest earned but not yet received.

**AGENCIES:** Federal agency securities and/or Government-sponsored enterprises. Examples of well-known agencies that issue bonds are Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac"), Federal National Mortgage Association (FNMA or "Fannie Mae"), and the Federal Home Loan Bank.

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

**ASKED:** The price at which securities are offered.

**ASSET BACKED SECURITIES:** Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

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

**BASIS POINT:** One basis point is one hundredth of one percent (.01).

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

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

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

**BOOK ENTRY:** The system maintained by the Federal Reserve, by which most money market securities are delivered to an investor's custodial bank. The Federal Reserve maintains a computerized record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment.)

**BOOK VALUE:** The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

**BROKER:** A broker brings buyers and sellers together for a commission.

**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.

**CERTIFICATE OF DEPOSIT (CD):** A deposit insured up to \$100,000 by the FDIC at a set rate for a specified period of time.

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

**COLLATERALIZED MORTGAGE OBLIGATION (CMO):** Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

**COMMERCIAL PAPER:** An unsecured promissory note of industrial corporations, utilities and bank holding companies having assets in excess of \$500 million and an "A" or higher rating for the issuer's debentures. Interest is discounted from par and calculated using the actual number of days on a 360-day year. The notes are in bearer form, mature from one to 270 days and generally start at \$100,000. There is a secondary market for commercial paper and an investor may sell them prior to maturity. Unused lines of credit back commercial paper from major banks.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The official annual financial report for the City. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP). Supplemental information is also included including a detailed multi-year comparative statistics.

**COST YIELD:** The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

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

**CREDIT RISK:** The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

**CURRENT YIELD:** The interest paid on an investment expressed as a percentage of the current price of the security.

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

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

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

**DELIVERY VERSUS PAYMENT (DVP):** Delivery versus payment is delivery of securities with an exchange of money for the securities.

**DERIVATIVES:** (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

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

**DISCOUNT SECURITIES:** Non-interest-bearing money market instruments that are issued a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns.

**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.

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

**FEDERAL FUNDS RATE:** The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL HOME LOAN BANKS (FHLB):** Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae):** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). The corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages.

**FEDERAL OPEN MARKET COMMITTEE (FOMC):** Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

**FED WIRE:** A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC or Freddie Mac):** A United States government sponsored corporation.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae):** Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

**HAIRCUT:** The margin or difference between the actual market value of a security and the value assessed by the lending side of a transaction (i.e. a repo).

**INTEREST RATE:** The annual yield earned on an investment, expressed as a percentage.

**LEVERAGE:** Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

**LIQUIDITY:** Refers to the ability to easily and rapidly convert a security into cash.

**LOCAL AGENCY INVESTMENT FUND (LAIF):** The local Agency Investment Fund (LAIF) is a special fund in the California State Treasury created and governed pursuant to Government Code Sections 16429.1 et seq. There are limits on the maximum dollars deposited by a city as well as the number of transactions allowed each month.

**LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** The aggregate of all funds from political subdivisions that are placed in custody of the State Treasurer for investment and reinvestment.

**MAKE WHOLE CALL:** A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

**MARGIN:** The difference between the market value of a security and the loan a broker makes using that security as collateral.

**MARKET RISK:** The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

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

**MARKING TO MARKET:** The process of posting current market values for securities in a portfolio.

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

**MEDIUM TERM NOTES (MTNs):** Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

**MODIFIED DURATION:** The percent change in price for a 100 basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

**MONEY MARKET:** The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

**MONEY MARKET MUTUAL FUND:** Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, and federal funds).

**MORTGAGE PASS THROUGH SECURITIES:** A securitized participation in the interest and principal 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.

**MUNICIPAL SECURITIES:** Securities issued by state and local agencies to finance capital and operating expenses.

**MUTUAL FUND:** An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

**NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD):** A self-regulatory organization (SRO) 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.

**NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS (NSROs);** Credit rating agencies whose ratings are permitted to be used for regulatory purposes such as those imposed by the Securities and Exchange Commission.

**NEGOTIABLE CERTIFICATE OF DEPOSIT:** A large denomination certificate of deposit which can be sold in the open market prior to maturity.

**NEW ISSUE:** Term used when a security is originally "brought" to market.

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

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

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

**PREMIUM:** The amount by which the price paid for a security exceeds the security's par value.

**PREPAYMENT SPEED:** A measure of how quickly principal is repaid to investors in mortgage securities.

**PREPAYMENT WINDOW:** The time period over which principal repayments will be received on mortgage securities at a specified prepayment speed.

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

**PRINCIPAL:** The face value or par value of a debt instrument, or the amount of capital invested in a given security.

**PRUDENT PERSON (PRUDENT INVESTOR) RULE:** A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that

a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

**PURCHASE DATE:** The date on which a security is purchased for settlement on that or a later date.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

**REALIZED YIELD:** The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

**REGIONAL DEALER:** A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

**REPURCHASE AGREEMENT (RP OR REPO):** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.

**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:** See CUSTODY.

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

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

**SETTLEMENT DATE:** The date on which a trade is cleared by delivery of securities against funds.

**STRUCTURED NOTE:** A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse

floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

**TENNESSEE VALLEY AUTHORITY (TVA):** The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

**TIME CERTIFICATE OF DEPOSIT:** A non-negotiable certificate of deposit which cannot be sold prior to maturity.

**TOTAL RATE OF RETURN:** A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

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

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

**TREASURY NOTES:** Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of 1 to 10 years.

**U.S. GOVERNMENT AGENCIES:** Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular agency.

**VOLATILITY:** The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

**WEIGHTED AVERAGE MATURITY (WAM):** The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

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

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

**YIELD CURVE:** The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.

**ZERO-COUPON SECURITY:** 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.