CITY OF LA CAÑADA FLINTRIDGE
INVESTMENT POLICY

FOR THE FISCAL YEAR ENDING JUNE 30, 2008

1. **POLICY:** It is the policy of the City of La Cañada Flintridge ("the City") to invest public funds in a manner that will provide an optimal combination of security and investment return while meeting the daily cash flow demands of the City and conforming to all State and local statutes governing the investment of public funds.

2. **SCOPE:** This investment policy applies to the investment of all financial assets of the City, except for those of the City's deferred compensation plan, the management of which is distinct and is not governed by this Investment Policy, and bond and financing proceeds, which will be made in accordance with the provisions of the applicable indentures. For the purpose of investment management, and except for the assets of the deferred compensation plan and the investment of bond and financing proceeds into vehicles authorized by the provisions of the applicable indentures but not by this Policy, all funds are pooled with the General Fund to facilitate ease of handling and to minimize costs of maintaining multiple investment accounts. Earnings on the pool of funds are allocated on a periodic basis to the respective individual funds.

3. **PRUDENCE:** California Government Code section 53600.3 classifies all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds as trustees, and therefore fiduciaries subject to the prudent investor standard. The prudent investor standard requires that 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.

4. **OBJECTIVES:** The chief objectives, in priority order, of the City's investment activities shall be:

   - **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City will diversify its investments to minimize the risk of loss resulting from over concentration of assets in a specific maturity range, of a specific issuer, or in a specific class of securities.

   - **Liquidity:** The City's investment portfolio will be managed to ensure sufficient liquidity to enable the City to meet all reasonably anticipated operating requirements, and should consist of securities with an active secondary or resale market.

   - **Return on Investment**: The City's investment portfolio shall be designed with the objective of attaining an optimal return throughout budgetary and economic cycles within established portfolio safety and liquidity parameters.

5. **AUTHORIZATION AND DELEGATION OF AUTHORITY:** Under and as specified by California Government Code Section 53601, the legislative body of a local agency (i.e., the City Council) is authorized to invest money in its treasury that is not required for immediate needs. As permitted under California Government Code Section 53607, the City Council with the approval of this Policy delegates management responsibility for the investment program for a concurrent and renewable period of one-year to the City Treasurer or in his/her absence the Assistant City Treasurer, who shall assume full responsibility for those transactions until the delegation of authority is revoked or expires, and who shall make a monthly report of those transactions to the City Council.

6. **INVESTMENT AND FINANCING ADVISORY COMMITTEE:** The City has created an Investment and Financing Advisory Committee ("Committee") consisting of five community members, plus the City Treasurer as Chairperson. The City Council appoints Committee members to four-year terms, with a maximum length of service of two consecutive four-year terms. Individual terms are staggered for the purpose of continuity. The purpose of the Committee is to:
   - Meet quarterly to review the status of the City's investments and to determine compliance with the City's Investment Policy.
   - Provide advice to the City Treasurer on investment and portfolio decisions.
   - Review the Investment Policy annually and suggest amendments or changes to improve and maximize the City's investment capabilities and to ensure compliance with federal, state and local laws and regulations.
   - Provide advice to the City Treasurer on debt issuance and management.
   - Provide advisory support to forecast and analyze cash flow projections in order to enhance liquidity and investment portfolio management.
   - Review the annual audit of the City's financial statements and investments and to make recommendations on management letter comments and/or audit recommendations for improvements related to the City's investments.
   - Aid the City Treasurer in related matters, as needed.
   - Make recommendations to the City Council as may be appropriate.

7. **ETHICS AND CONFLICTS OF INTEREST:** All City officers, employees, and members of the Investment and Financing Advisory Committee involved in the City's investment process shall act responsibly as custodians of the public trust, and refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment and portfolio management decisions.

8. **AUTHORIZED INVESTMENT ADVISOR:** The City has authorized to contract the services of a registered investment advisor, on a non-exclusive basis. Investment advisory services may include investment research and supervision, and a continuous program of investment, evaluation, and execution of sale and reinvestment of City funds. Each investment decision must be made by the City Treasurer or in his/her absence the Assistant City Treasurer before any investment transaction is executed. The investment advisor is authorized to place all orders for the purchase, sale, loan or exchange of portfolio securities for the City's account with brokers or dealers, and is authorized as agent of the City to give instructions to its third party custodian as to deliveries of securities and payment of cash for the account of the City. The investment advisor shall ensure that orders are placed with reputable, qualified, and financially sound brokers/dealers. In connection with the qualification and selection of brokers and dealers and the placing of such orders, the investment advisor is directed to seek for the City the most favorable execution and price. The investment advisor shall provide the City with a monthly statement showing deposits, withdrawals, purchase and sales (or maturities or calls) of investments, earnings received and the value of assets held. The City Treasurer shall annually provide a copy of the City's Investment Policy to the investment advisor.

9. **AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS FOR INVESTMENT SERVICES:** The City is authorized to utilize the investment services of financial dealers and institutions outside of the investment advisory agreement. The City Treasurer shall maintain a list of financial institutions authorized to provide investment services, if any, and a list of approved security broker/dealers, if any, selected by creditworthiness and who are authorized to provide investment services in California. These lists, if any, shall be reviewed and approved by the Investment and Financing Advisory Committee. Each approved financial dealer and institution must certify that it has read and agrees to comply with the investment policies of the City, must be a "primary" dealer or regional dealer that qualifies under the Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule), must have an office in California, must be experienced in institutional trading practices and familiar with the California Government Code as related to investments for local governmental agencies, must have been in business for at least three years, must provide current audited financial statements, and must provide proof of National Association of Security Dealers certification.

Selection of an approved institution for execution of a specific investment transaction shall be made on the basis of the most favorable execution and price whenever practical. Each investment decision must be made by the City Treasurer or in his/her absence the Assistant City Treasurer before any investment transaction is executed.

10. **AUTHORIZED FINANCIAL INSTITUTIONS FOR DEPOSITORY SERVICES**: Each financial institution with which the City's public funds are deposited shall supply the City Treasurer with current audited financial statements, depository contracts, a copy of its latest FFIEC call report, proof that the institution is state or federally chartered, and must have received an overall rating of "satisfactory" or better in its most recent supervisorial evaluation of its record of meeting the credit needs of California's communities. All public funds deposits placed with authorized financial institutions must be collateralized as described in section 12, "Collateral Requirements", and Appendix A of this Investment Policy. The City's total deposits with any single depository shall not exceed that depository's industry-specific definition of net worth, except as permitted under California Government Code Section 53638.

11. **AUTHORIZED AND SUITABLE INVESTMENTS:** The City is empowered by statute (California Government Code Section 53600 et seq.) to invest money in certain types of securities and funds. Within that empowerment, the City restricts eligible securities and funds to those listed below. Each type listed is subject to various specific requirements and restrictions, imposed by the above referenced California Government Code Sections, and by the City by way of this Investment Policy. These requirements and restrictions are detailed in Appendix A to this Investment Policy.

    - U.S. Treasury Securities
    - Federal Agency and U.S. Government-Sponsored Enterprise Obligations
    - Medium Term Notes
    - Commercial Paper
    - Time Deposits (including non-negotiable Certificates of Deposit)
    - Negotiable Certificates of Deposit
    - Bankers' Acceptances
    - Local Agency Investment Fund (LAIF)
    - Shares of Beneficial Interest issued by a Joint Powers Authority
    - Repurchase Agreements
    - Mutual Funds
    - Money Market Mutual Funds

    Except as specifically authorized by the City Council in advance, no investment shall be made in any security that at the time of investment has a term remaining to maturity in excess of five years.

    As a Local Agency, the City is specifically prohibited from investing in inverse floaters, range notes, mortgage-derived interest-only strips, or any securities that could result in zero interest accrual if held to maturity (California Government Code section 53601.6).

12. **COLLATERAL REQUIREMENTS:** Collateral is required to secure investments in repurchase agreements and deposits of all public funds with financial institutions. Collateral requirements are described under "Additional State Limits" and "Additional City Limits" in Appendix A of this Investment Policy. The description of collateral requirements to secure deposits of public funds is located in the "Time Deposits" section of Appendix A.

13. **SAFEKEEPING AND CUSTODY:** All security transactions shall be conducted on a delivery-versus-payment (DVP) basis. Securities shall be held by a third party qualified custodian and evidenced by monthly safekeeping statements.

14. DIVERSIFICATION OF SECURITIES AND MATURITIES: The City shall maintain a diversified portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity range, of a specific issuer, or in a specific security type. Diversification of securities types is described in Appendix A of this Investment Policy.

The City employs a passive investment strategy, by which the City's full intent at the time of purchase is to hold all investments until maturity. Investments shall be made and maintained to match the City's projected cash flow requirements. Investments shall be made in realization that market prices of securities will vary depending on economic and interest rate conditions at any point in time. In the context of both the City's immediate and/or projected cash flow requirements at any point in time and the City's primary investment goals (safety, liquidity, return on investment), the sale of individual securities prior to maturity for purposes of portfolio reconfiguration may be appropriate.

The City's maturity matrix guideline ranges are as follows:

Maturity Range	Guideline Portfolio Percentage
1 Day to 1 Year	30% - 100%
1 Year to 3 Years	10% - 60%
3 Years to 5 Years	0% - 40%

Normally, the targeted weighted average maturity of the entire portfolio will approximate two years.

15. INTERNAL CONTROLS: Internal policies and procedures shall be maintained to assure that appropriate controls are in place to document and confirm all transactions. Transaction authority shall be separated from accounting and record keeping. An independent analysis by an external auditor shall be conducted annually to review internal control, account activity and compliance with policies and procedures.

16. PERFORMANCE STANDARDS: Given the City's passive investment strategy and the strategy for maturities diversification, the average weighted maturity of the portfolio will normally approximate two years. The basis used by the Treasurer to determine whether market yields are being achieved shall be to benchmark portfolio returns as of the end of each month and the average of portfolio returns for the last twelve month ends against comparable two year Treasury Constant Maturity yields.

17. REPORTING: The City Treasurer or in his/her absence Assistant City Treasurer shall provide the City Council and the City Manager a monthly investment report within 30 days following the end of the month covered by the report. Each report shall be certified by the City Treasurer or in his/her absence the Assistant City Treasurer, signifying compliance with the City's Investment Policy and stating the ability of the City to meet its expenditure requirements for the next six months, or providing an explanation as to why sufficient funds shall not or may not be available.

Each report shall include the type of investment, issuer, par value, dollar amount invested, maturity date, days to maturity and call, coupon or interest rate, and as applicable market value and source of market valuation on all securities, investments, and monies held by the City. Reports shall also identify the broker/dealer from which each security was acquired. Reports shall include the weighted average days to maturity and weighted average days to call of the entire portfolio, and the weighted current yield of the entire portfolio. On a quarterly basis, reports shall contain a description of any of the local agency's funds, investments, or programs that are under the management of contracted parties, including those related to lending programs, unless specifically excepted. In monthly or quarterly reporting, the City Treasurer or in his/her absence Assistant City Treasurer shall report whatever additional information or data may be required by the City Council. In accordance with California Government Code section 53646, the City shall provide ~~copies of its second and fourth quarter reports to the California Debt and Investment Advisory Commission within 60 days after the close of the those quarters (requirement inoperative effective January 1, 2007), and~~ a copy of its Investment Policy within 60 days of the close of the second quarter of the calendar year.

18. **LEGISLATIVE CHANGES:** Any State of California legislative action that further restricts allowable securities, investments, portfolio limits or any other elements of this Policy will be incorporated into the City's Investment Policy and will supersede previous applicable language.

19. **INVESTMENT POLICY ADOPTION:** The City's Investment Policy shall be reviewed at least annually and adopted by resolution of the City Council at a public meeting. Any modifications to the Investment Policy must be considered by the City Council at a public meeting.

APPENDIX A

SCHEDULE OF ALLOWABLE INVESTMENTS AND RELATED REQUIREMENTS AND RESTRICTIONS

PERMITTED INVESTMENTS	STATUTORY LIMITS (at date of acquisition)		CITY LIMITS (at date of acquisition)	
	Portfolio Limit	Maximum Maturity	Portfolio Limit	Maximum Maturity
U.S. TREASURY SECURITIES	**None**	**5 Years**	**None**	**5 Years**
Additional State Restrictions: None. **Additional City Restrictions:** None.				
FEDERAL AGENCY AND U.S. GOVERNMENT-SPONSORED ENTERPRISE OBLIGATIONS	**None**	**5 Years**	**None**	**5 Years**
Additional State Restrictions: None. **Additional City Restrictions:** Guideline concentration limit of no more than 35% of total portfolio invested into obligations of a single issuer, if obligations are not backed by the full faith and credit of the U.S. Government, at the time of acquisition. Floating rate obligations are not eligible for investment.				
MEDIUM TERM NOTES	**30%**	**5 Years**	**30%**	**5 Years**
Additional State Restrictions: Issuer must be a corporation organized and operating within the US, or a depository institution licensed by the US or by any state and operating within the US. Eligible notes must be rated “A” or better by a nationally recognized rating service. **Additional City Restrictions:** Eligible notes must be rated “A” or better by Standard & Poor’s or by Moody’s. The aggregate par value of notes rated “A” by either Standard & Poor’s or by Moody’s may not exceed 5% of the par value of the total investment portfolio governed by this Policy at the time of acquisition. Total par value of medium term note and commercial paper holdings of a single issuer may not exceed $1,000,000.				
COMMERCIAL PAPER	**25%**	**270 days**	**25%**	**270 days**
Additional State Restrictions: Commercial paper must be of “prime” quality of the highest ranking or of the highest letter and number rating by a nationally recognized statistical-rating organization. Issuer must be 1) a corporation organized and operating within the US, with total assets in excess of $500 million, with long term debt (if any) rated “A” or better by a nationally recognized statistical-rating organization, or 2) a special purpose corporation, trust, or limited liability company organized within the US, that has program wide credit enhancements including but not limited to over collateralization, letters of credit, or surety bond, and has commercial paper that is rated “A-1” or higher, or the equivalent, by a nationally recognized statistical-rating organization. No more than 10% of a single issuer’s outstanding commercial paper may be purchased. **Additional City Restrictions:** Total par value of commercial paper and medium term note holdings of a single issuer may not exceed $1,000,000.				

APPENDIX A

SCHEDULE OF ALLOWABLE INVESTMENTS AND RELATED REQUIREMENTS AND RESTRICTIONS

PERMITTED INVESTMENTS	STATUTORY LIMITS (at date of acquisition)		CITY LIMITS (at date of acquisition)	
	Portfolio Limit	Maximum Maturity	Portfolio Limit	Maximum Maturity
TIME DEPOSITS (including non-negotiable Certificates of Deposit)	**None**	**5 Years**	**15%**	**1 Year**

Additional State Restrictions: Total deposit exposure to any one institution not to exceed that institution's industry-specific determination of net worth, with specified limited exceptions permitted by State Government Code. Deposits must be collateralized with a) eligible government and agency securities with a value of 110% of principal and accrued interest; b) first trust deed mortgage notes with a value of 150% of total agency deposit; or c) letter of credit drawn on the Federal Home Loan Bank of 105% of total agency deposit. Collateral requirements for all deposit exposures up to $100,000 that are fully insured by the FDIC may be waived.
Additional City Restrictions: Depository institution must have at least an "adequately capitalized" regulatory capital rating at the time of deposit.

NEGOTIABLE CERTIFICATES OF DEPOSIT	**30%**	**5 Years**	**15%**	**5 Years**

Additional State Restrictions: Must be issued by a nationally or state chartered bank, or a state or federal savings association, or by a state licensed branch of a foreign bank. Total deposit exposure to any one institution not to exceed that institution's industry-specific determination of net worth, with specified limited exceptions permitted by State Government Code.
Additional City Restrictions: Eligible Negotiable CD's must carry a Moody's Long Term Deposit rating of "A" or better. Daily transactions in negotiable CD's not to exceed 20% of total portfolio in effect immediately after such transactions are made. Obligor depository institution must have at least an "adequately capitalized" regulatory capital rating at the time of investment.

BANKERS' ACCEPTANCES	**40%**	**180 days**	**20%**	**180 days**

Additional State Restrictions: No more than 30% of portfolio may be invested into Bankers' Acceptances of a single commercial bank.
Additional City Restrictions: No more than 10% of portfolio may be invested into Bankers' Acceptances of a single commercial bank.

LOCAL AGENCY INVESTMENT FUND (LAIF)	**$40 million (set by LAIF)**	**Not Applicable**	**50%**	**Not Applicable**

Additional State Restrictions: None.
Additional City Restrictions: None.

APPENDIX A

SCHEDULE OF ALLOWABLE INVESTMENTS AND RELATED REQUIREMENTS AND RESTRICTIONS

PERMITTED INVESTMENTS	STATUTORY LIMITS (at date of acquisition)		CITY LIMITS (at date of acquisition)	
	Portfolio Limit	Maximum Maturity	Portfolio Limit	Maximum Maturity
SHARES OF BENEFICIAL INTEREST ISSUED BY A JOINT POWERS AUTHORITY	**None**	**Not Applicable**	**25%**	**Not Applicable**

Additional State Restrictions: JPA investments limited to those permitted by State Code. JPA must have an investment advisor registered or exempt from registration with the SEC with at least five years experience investing in securities permitted by State Code and with assets under management of at least $500 million.
Additional City Restrictions: Same as State.

REPURCHASE AGREEMENTS	**None**	**1 Year**	**10%**	**30 days**

Additional State Restrictions: Underlying securities limited to those securities otherwise permitted by State Code. Market value of underlying securities (collateral) must equal or exceed 102% of value of the repurchase agreement, and the value must be adjusted no less than quarterly.
Additional City Restrictions: Market value of underlying securities (collateral) must be monitored daily to ensure compliance with 102% collateral requirement. Underlying securities limited to U.S. Treasuries, obligations of Federal Agencies or Government Sponsored Enterprises, certificates of deposit, or bankers' acceptances as otherwise authorized. Collateral exposure to certificates of deposit and bankers' acceptances subject to established State Code limits or established City limits, if more restrictive. A Public Securities Association (PSA) Master Repurchase Agreement is required for all repurchase agreements transacted. Direct investment in reverse repurchase agreements is prohibited.

MUTUAL FUNDS	**20%**	**N/A**	**20%**	**N/A**

Additional State Restrictions: Eligible Funds restricted to those that invest in securities and obligations otherwise permitted by State Code. Eligible Funds must have highest letter and number ratings provided by at least two nationally recognized statistical rating organizations, or have retained an investment advisor registered or exempt from registration with the SEC with at least five years experience investing in securities and obligations authorized by State Code and with assets under management in excess of $500 million. No more than 10% of portfolio may be invested in any one fund.
Additional City Restrictions: Same as State.

APPENDIX A

SCHEDULE OF ALLOWABLE INVESTMENTS AND RELATED REQUIREMENTS AND RESTRICTIONS

PERMITTED INVESTMENTS	STATUTORY LIMITS (at date of acquisition)		CITY LIMITS (at date of acquisition)	
	Portfolio Limit	Maximum Maturity	Portfolio Limit	Maximum Maturity
MONEY MARKET MUTUAL FUNDS	**20%**	**N/A**	**20%**	**N/A**

Additional State Restrictions: Eligible Funds restricted to those that are money market funds registered with the SEC under the Investment Company Act of 1940. Eligible Funds must have highest letter and number ratings provided by at least two nationally recognized statistical rating organizations, or have retained an investment advisor registered or exempt from registration with the SEC with at least five years experience managing money market mutual funds and with assets under management in excess of $500 million.
Additional City Restrictions: Same as State.

GLOSSARY

Acceptance. See “Bankers’ Acceptance”.

Active Investment Management. An investment strategy that involves the active trading of securities in an attempt to earn above-average returns on a portfolio. See also “Passive Investment Management”.

Adequately Capitalized Bank: An FDIC insured depository institution with a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4% or greater, a leverage ratio of 4.0% or greater (or 3.0% or greater if certain other standards are met), and does not meet the definition of a well capitalized bank. See also “well capitalized bank”, “undercapitalized bank”, “significantly undercapitalized bank”, and “critically undercapitalized bank”.

Agency / Agencies. See “Federal Agency Securities”.

Asked. Price offered to sell securities.

Asset Backed Commercial Paper. Short term debt issued by a corporation, conduit, trust or limited liability corporation which is structured as a limited-purpose finance company whose only purpose is to finance the purchase of assets, such as receivables or loans, with the issuance of commercial paper. See also “Commercial Paper”.

Bankers’ Acceptance (BA’s). A short-term credit instrument created by a non-financial firm and guaranteed by a bank as to payment. Bankers’ acceptances are traded at discounts from face value as money market instruments in the secondary market on the basis of the credit quality of the guaranteeing bank.

Basis Point. 0.01% of yield on a fixed income security; one hundredth of one percent.

Benchmark. A comparative basis for measuring the performance or risk tolerance of an 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 offered to purchase securities.

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 Value. The value at which a debt security is reflected on the holder’s records at any point in time. Book value is acquisition cost less amortization of premium or accretion of discount recognized from the time of acquisition to the point in time that book value is determined.

Broker. A broker brings buyers and sellers together, and receives a commission.

California Asset Management Program (CAMP). California Joint Powers Authority established under the provisions of the California Joint Exercise of Powers Act, formed to provide investment services to California Public Agencies. The Program consists of the services of the California Asset Management Trust, the Trust’s Investment Advisor (Public Financial Management, Inc.), and the Program’s custodian (BNY Western Trust Company).

California Asset Management Trust. A California Common Law Trust established under provisions of the California Joint Exercise of Powers Act that allows any participating California Public Agency to purchase shares of beneficial interest in a money market investment pool (the “Cash Reserve Portfolio”) for the temporary investment of operating funds and proceeds from bonds, notes and certificates of participation, pending their disbursement. The Trust’s investments are limited to those authorized by California Government Code. A feature offered as part of the California Asset Management Program (CAMP).

Call. Right of a security issuer to redeem the security at par value at a specified date or dates prior to its maturity date. Securities issued with a call provision typically carry a higher coupon rate than those issued without a call feature for a like maturity.

Call Date. Date at which a call may be or is exercised.

Certificate of Deposit (CD). Particular type of time deposit investment available at financial institutions, generally offering a fixed rate of return for a specified period of time. The investor receives a “certificate” evidencing the deposit.

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

Commercial Paper. Short term unsecured promissory note issued by a company on a discount basis. See also “Asset Backed Commercial Paper”.

Counterparty. The other party in a two party financial transaction. “Counterparty risk” refers to the risk that the other party to a transaction will fail in its related obligations.

Coupon Rate. Annual interest rate on the face amount of a debt security, usually used in reference to interest on bonds.

Critically Undercapitalized Bank. An FDIC insured depository institution with a ratio of tangible equity to total assets that is equal to or less than 2.0%. See also “well capitalized bank”, “adequately capitalized bank”, “undercapitalized bank”, and “significantly undercapitalized bank”.

Current Yield. Annual rate of return from an investment based on the income received during a year compared with the investment’s current market price, expressed as a percentage.

Custody. Safekeeping service offered usually by a financial institution (the custodian) for a customer’s securities. Service normally includes the holding and reporting of the customer’s securities, and the collection and disbursement of income, securities and proceeds according to customer instructions.

Dealer. Individual or firm that buys assets for and sells financial assets from its own portfolio. See also “Primary Dealer”.

Delivery Versus Payment (DVP). Settlement procedure in which a customer instructs that immediate payment will be made upon delivery of a purchased security.

Derivative. A financial asset whose value depends on (i.e. “derives” from) another financial or monetized asset.

Discount. The amount by which a bond or other financial instrument sells below its face value. See also “Premium”.

Discount Rate. Rate charged by the system of Federal Reserve Banks on overnight loans to member banks. Changes to this rate administered by the Federal Reserve System are closely watched as an indicator of future changes in the money supply and market interest rates.

Discount Securities. Non-interest bearing money market instruments that are issued at discount and redeemed at maturity for full face value. Examples include U.S Treasury Bills, Bankers’ Acceptances, and Commercial Paper.

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

Duration. A statistical measure of the sensitivity of bond prices to changes in interest rates, and as such, a definition of interest rate risk. Higher duration indicates greater interest rate risk.

Fannie Mae. See “Federal National Mortgage Association”.

FDIC. See “Federal Deposit Insurance Corporation”.

Fed. See “Federal Reserve System”.

Federal Agency. A government-owned entity created by Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets. In use, the term can also refer to a Government Sponsored Enterprise, although this is technically erroneous because Government Sponsored Enterprises, unlike Federal Agencies, are not owned by the U.S. Government.

Federal Agency Security. A security issued by a Federal Agency. Federal Agency Securities are backed by the full faith and credit of the U.S. Government. In use, the term Federal Agency Security can also include securities issued by Government Sponsored Enterprises. The distinction between Federal Agency Securities and Government Sponsored Enterprise securities is important, because Government Sponsored Enterprise securities are not explicitly backed by the full faith and credit of the U.S. Government.

Federal Deposit Insurance Corporation (FDIC). Federal agency that insures deposits at commercial banks, currently to a limit of $100,000 per depositor per bank.

Federal Farm Credit Bank System (FFCB). A Government Sponsored Enterprise system that consolidates operations of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks, and provides financing assistance to the agricultural industry.

Federal Financial Institutions Examination Council (FFIEC). Formal Federal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the currency, and the Office of Thrift Supervision and to make recommendations to promote uniformity in the supervision of financial institutions.

Federal Funds (Fed Funds). Funds placed in Federal Reserve Banks by depository institutions in excess of current reserve requirements, or alternatively, funds lent or borrowed on an overnight or longer basis to and from other depository institutions.

Federal Funds Rate (Fed Funds Rate). The interest rate charged by a depository institution lending Federal Funds to another depository institution. The Federal Reserve Bank does not set or administer this market rate, but strongly influences it to the point of identifying a “target” Fed Funds rate associated with the Fed’s management of the Discount Rate.

Federal Home Loan Bank System (FHLB). A Government Sponsored Enterprise system, consisting of wholesale banks (currently twelve district banks) owned by their member banks, which provides correspondent banking services and credit to various financial institutions, financed by the issuance of securities. The principal purpose of the FHLB is to add liquidity to the mortgage markets.

Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”). A privately owned Government Sponsored Enterprise corporation that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages and participation interests financed by the sale of guaranteed mortgage backed securities.

Federal National Mortgage Association (FNMA or “Fannie Mae”). A privately owned Government Sponsored Enterprise corporation that adds liquidity to the mortgage market by purchasing mortgage loans from lenders, financed by the issuance of securities and sale of repackaged mortgages.

Federal Reserve Bank. Distinct bank of the Federal Reserve System.

Federal Reserve System (the Fed). The independent central bank system of the United States that establishes and conducts the nation’s monetary policy. This is accomplished in three major ways: 1) raising or lowering bank reserve requirements, 2) raising or lowering the Discount Rate, and 3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven member Board of Governors; “the Federal Reserve Board”.

FFIEC. See “Federal Financial Institutions Examination Council”.

Fitch Ratings. A financial services company that among other things provides investment quality ratings on debt issues from its nationally recognized proprietary ratings system, and quality ratings on commercial banks.

Floater. A floating rate security with an interest rate that resets at specified intervals according to an underlying index, such as LIBOR (London Interbank Offered Rate), and is based on a predetermined formula.

Freddie Mac. See “Federal Home Loan Mortgage Corporation”.

Ginnie Mae. See “Government National Mortgage Association”.

Government National Mortgage Association (GNMA or "Ginnie Mae"). Government owned Federal Agency that acquires, packages, and resells mortgages and mortgage purchase commitments in the form of mortgage-backed securities.

Government Sponsored Enterprise (GSE). Privately owned entity subject to federal regulation and supervision, created by Congress for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy felt to otherwise have restricted access to credit markets. Government Sponsored Enterprises are sometimes referred to as Federal Agencies, although this is technically erroneous because unlike Government Sponsored Enterprises, Federal Agencies are actually part of the U.S. Government.

Government Sponsored Enterprise Security. A security issued by a Government Sponsored Enterprise. Government Sponsored Enterprise securities are not explicitly backed by the full faith and credit of the U.S. Government. However, the U.S. Government's sponsorship support of Government Sponsored Enterprises is considered to provide implicit U.S. Government backing of securities issued by Government Sponsored Enterprises. In use, the term Federal Agency Security can also include securities issued by Government Sponsored Enterprises, despite the different nature of U.S. Government support.

Inverse Floater. A floating rate security structured in such a way that it reacts inversely to the direction of interest rates.

Joint Powers Authority. In the context of this Investment Policy, two or more public agencies with the authority to invest funds in their treasuries that, by agreement, jointly exercise that common power. Such a joint powers authority may issues shares of beneficial interest to participating public agencies.

Liquidity. Relative ease and rapidity of converting an asset into cash without significant loss of value. Also, a relative measure of cash and near-cash items in a portfolio of assets. Also, a term describing the marketability of a money market security correlating to the narrowness of the spread between the bid and asked prices.

Local Agency Investment Fund (LAIF). Special fund in the California State Treasury which local agencies may access to deposit funds for investment and reinvestment.

Mark-to-market. Adjusting the value of an asset to its market value, reflecting in the process unrealized gains or losses.

Master Repurchase Agreement. A widely accepted standard agreement form published by the Public Securities Association that is used to govern and document Repurchase Agreements.

Maturity Date. Date on which principal payment of a financial obligation is due.

Medium Term Notes (MTN's). Corporate or depository institution debt securities offered for a wide range of maturities. As applicable to allowable local agency investments, medium term notes have maximum remaining maturities of five years or less.

Money Market Mutual Fund. A type of mutual fund that invests solely in money market instruments, such as Treasury bills, commercial paper, bankers' acceptances, repurchase agreements, and federal funds. Money market mutual funds are registered with the Securities and Exchange Commission under the Investment Company Act of 1940.

Moody's Investors Service. A financial services company that among other things provides investment quality ratings on debt issues from its nationally recognized proprietary ratings system.

Mutual Fund. Portfolio of securities professionally managed by a sponsoring management or investment company that issues shares to investors. Many different types of mutual funds exist.

National Association of Securities Dealers (NASD). Self-policing trade association of over-the-counter brokers and dealers that establishes legal and ethical standards of conduct for its members.

Nationally Recognized Statistical-Rating Organization (NRSRO): One of Moody's Investors Service, Standard & Poor's, or Fitch Ratings.

Negotiable Certificate of Deposit (Negotiable CD). A large denomination ($100,000 and larger) Certificate of Deposit that is issued in bearer form and that can be traded in the secondary market.

NRSRO: See "Nationally Recognized Statistical-Rating Organization".

Offer. Price offered to sell securities. A potential buyer of securities asks for an offer. See also "Asked" and "Bid".

Open Market Operations. A monetary policy tactic entailing the purchase or sale of government securities in the open market by the Federal Reserve System from and to primary dealers in order to influence the money supply, credit conditions, and interest rates.

Par Value. Face, or stated, value of a security as it appears on its certificate.

Passive Investment Management. An investment strategy that involves the purchase of securities with the intention of holding them to maturity, or investments in benchmark products designed to yield a market rate of return. See also "Active Investment Management".

Portfolio. Collection of securities and investments held by an investor.

Premium. The amount by which a bond or other financial instrument sells above its face value. See also "Discount".

Primary Dealer. Any of a group of designated government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Principal. Face value of a financial instrument on which interest accrues.

Prudent Investor Standard. California Government Code section 53600.3 classifies all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds as trustees and therefore fiduciaries subject to the prudent investor standard. The prudent investor standard requires that 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.

Public Securities Association (PSA). The bond market trade association that publishes a Master Repurchase Agreement, widely accepted as the industry standard document for Repurchase Agreements.

Range Note. A type of structured note that accrues interest daily at a set coupon rate that is tied to an index. Most range notes have two coupon levels; a higher accrual rate for the period the index is within a designated range, the lower accrual rate for the period that the index falls outside the designated range. This lower rate may be zero.

Rate of Return. Amount of income received from an investment, expressed as a percentage. When used as a measure of returns on a bond investment, same as "Current Yield".

Repurchase Agreement (Repo). From the point of view of a buyer, an agreement under which a holder sells securities to the buyer and agrees to repurchase them at a specified price on a given date. In effect, the buyer of securities extends a collateralized loan to the seller.

Reverse Repurchase Agreement (Reverse Repo). From the point of view of a holder of securities, an agreement under which the holder sells securities to a buyer and agrees to repurchase them at a specified price on a given date. In effect, the holder of securities borrows under a collateralized loan from the buyer.

Safekeeping. Service offered for a fee, usually by financial institutions, for the holding of securities and other valuables. Safekeeping is a component of custody services.

Salle Mae. See "Student Loan Marketing Association".

Secondary Market. Markets for the purchase and sale of any previously issued financial instrument.

SEC. Securities and Exchange Commission.

Security. A financial instrument that indicates a creditor relationship with the issuer of a debt obligation, or otherwise signifies rights of ownership.

Significantly Undercapitalized Bank: An FDIC insured depository institution with a total risk-based capital ratio of less than 6.0%, or a Tier 1 risk-based capital ratio of less than 3%, or a leverage ratio of less than 3.0%. See also "well capitalized bank", "adequately capitalized bank", "undercapitalized bank", and "critically undercapitalized bank".

Standard & Poor's / Standard & Poor's Ratings. Standard & Poor's is a financial services company that among other things provides investment quality ratings on debt issues from its nationally recognized proprietary ratings system. These ratings are as follows:

'AAA': An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

'AA': An obligation rated 'AA' differs from the highest rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

'A': An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

'BBB': An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Obligations rated 'AAA' through 'BBB' are regarded by the market as investment grade. Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. Obligations rated 'D' are in default.

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

STRIPS (Separate Trading of Registered Interest and Principal of Securities). Acronym applied to Treasury securities that have had their coupons and principal repayments separated into what effectively are zero-coupon Treasury bonds. The same technique, and "strips" description, is also be applied to non-Treasury securities.

Structured Notes. Notes issued by Government Sponsored Enterprises and corporations which have imbedded into their structure options such as call features, step-up coupons, floating rate coupons, and derivative-based returns.

Student Loan Marketing Association (SLMA or "Sallie Mae"). A Government Sponsored Enterprise that provides a secondary market in government guaranteed student loans and acts as a source of credit for lenders and individuals in the higher education market. In 1997, the Student Loan Marketing Association initiated a process of unwinding its status as a Government Sponsored Enterprise, however, until the process is complete all debt issued will be considered debt issued by a Government Sponsored Enterprise until maturity.

Treasuries. Collective term used to describe debt instruments backed by the U.S. Government and issued through the U.S. Department of the Treasury. Includes Treasury bills, Treasury notes, and Treasury bonds. Also a benchmark term used as a basis by which the yields of same maturity non-Treasury securities are compared (e.g., "trading at 50 basis points over Treasuries").

Treasury Bills (T-bills). Highly liquid short-term debt securities backed by the U.S. Government and issued on a discount basis through the U.S. Department of the Treasury.

Treasury Bonds. Long-term interest bearing debt securities backed by the U.S. Government and issued with maturities of ten years and longer by the U.S. Department of the Treasury.

Treasury Constant Maturity Yield. Yields on U.S. Treasury securities at "constant maturity" (e.g., two years, etc.) interpolated from the daily yield curve and published by the U.S. Treasury. This curve, which relates the yield on a security to its time to maturity, is based on the closing market bid yields on actively traded U.S. Treasury securities in the secondary market.

Treasury Notes. Intermediate interest bearing debt securities backed by the U.S. Government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury.

Undercapitalized Bank: An FDIC insured depository institution with a total risk-based capital ratio of less than 8.0%, or a Tier 1 risk-based capital ratio of less than 4.0%, or a leverage ratio of less than 4.0% (or less than 3.0% if certain other standards are met). See also “well capitalized bank”, “adequately capitalized bank”, “significantly undercapitalized bank”, and “critically undercapitalized bank”.

Uniform Net Capital Rule. Securities and Exchange Commission requirement (15C3-1) regulating the maximum ratio of indebtedness to net liquid capital of member firms as well as non-member broker/dealers.

Weighted Average Days to Call. The average maturity of all securities and investments of a portfolio, adjusted to substitute the first call date per security for maturity date for those securities with call provisions. Determined by multiplying the par or principal value of each security or investment by its days to first call date, or maturity for those securities with no call provision, summing the products, and dividing the sum by the sum of the par or principal values of each security or investment.

Weighted Average Days to Maturity / Weighted Average Maturity. The average maturity of all securities and investments of a portfolio, determined by multiplying the par or principal value of each security or investment by its days to maturity, summing the products, and dividing the sum by the sum of the par or principal values of each security or investment.

Well Capitalized Bank: An FDIC insured depository institution with a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6% or greater, a leverage ratio of 5.0% or greater, and which is not subject to any FDIC issued written agreement, order or directive to meet and maintain a specific capital level for any capital measure. See also “adequately capitalized bank”, “undercapitalized bank”, “significantly undercapitalized bank”, and “critically undercapitalized bank”.

Yield. Percentage return on an investment. There are numerous methods of yield determination. In this glossary, see also “Current Yield”, “Treasury Constant Maturity Yield, “Yield Curve”, “Yield to Call”, and “Yield to Maturity”.

Yield Curve. A graphic depiction of yields on like securities in relation to remaining maturities spread over a time line. “The” yield curve depicts yields on Treasuries.

Yield to Call. Same as Yield to Maturity, except the date of call is substituted for the date of maturity.

Yield to Maturity. Current income yield on a debt security minus any premium above par or plus any discount from par in purchase value, with the adjustment spread over the period from the date of purchase to the date of maturity of the debt security, expressed as a percentage.