CITY OF MANTECA
INVESTMENT POLICY

August 2025

I. PURPOSE

This statement is intended to provide guidelines for the prudent investment of the City's idle cash and to outline the policies for maximizing the efficiency of the City's cash management system. The ultimate goal is to enhance the economic status of the City while protecting its pooled cash.

II. POLICY

It is the policy of the City of Manteca to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statues governing the investment of public funds. The City of Manteca's investment policy has three objectives: (1) preserve principal, (2) maintain liquidity to meet the daily cash flow demands of the City and (3) achieve a reasonable rate of return while conforming to all state and local statutes governing the investment of public funds. The City further operates its investment activities under the "prudent investor" rule (see discussion below). This affords a broad spectrum of investment opportunities so long as the investment is deemed prudent and is permissible under current state and local law.

III. SCOPE

This investment policy applies to all financial assets of the City of Manteca. These funds are accounted for in the City's Annual Comprehensive Financial Report (ACFR) and include:

- General Fund
- Special Revenue Funds
- Capital Improvement Funds
- Proprietary Funds
- Internal Service Funds
- Fiduciary Funds

Note that any excluded funds such as employee retirement funds, proceeds from certain bond issues and foundation or endowment assets are covered by a separate policy/ies. California Government Code Section 5922(d) authorizes bond, certificates of participation notes and other debt issue proceeds to be invested in accordance with the related offering documentation.

IV. PRUDENT INVESTOR STANDARD

The standard of prudence to be used by investment officials in the management of City moneys shall be the Prudent Investor Standard as authorized under Section 53600.3 of the California Government Code which shall be applied in the context of managing all aspects of the overall portfolio. Investments shall be made with the care, skill, prudence and diligence, under circumstances then prevailing, including but not limited to, the general economic conditions and the anticipated needs of the City, 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 with like aims to safeguard the principal and maintain the liquidity needs of the City.

The City Treasurer and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

V. OBJECTIVES

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest idle funds to the fullest extent possible. The City strives to obtain the highest yield possible as long as investments meet the criteria for safety and liquidity.

Safety
Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner which seeks to ensure the preservation of principal in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Risk associated with an investment refers to the potential loss of principal, interest or a combination of both.

The City shall seek to preserve principal by mitigating the two types of risk - credit risk and market risk:

Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the City's capital base and cash flow.

Market Risk, defined as- market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the weighted average maturity of the City's investment portfolio to three and one-half years, the maximum maturity of any one security to five years, and structuring the portfolio based on historic and current cash flow analysis.

V. OBJECTIVES (continued)

Liquidity
The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. This goal shall be achieved by maintaining a reasonable portion of the City's portfolio in liquid, short-term instruments which can readily be converted to cash if necessary.

Return on Investment
The City's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

VI. DELEGATION OF AUTHORITY

In accordance with Government Code Section No. 53607, the City Council authorizes the City Treasurer to undertake investment transactions on behalf of the City. In addition, the Finance Director, if not appointed as City Treasurer, is delegated the management responsibility for the City's investment program. The only officials authorized to undertake transactions on behalf of the City are the City Treasurer and the Finance Director. Additionally, designees of the City Treasurer or Finance Director are authorized to initiate transactions involving the Local Agency Investment Fund (LAIF).

The City may engage the services of an external investment manager to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such external manager may be granted discretion to purchase and sell investment securities in accordance with this investment policy. Such manager must be registered under the Investment Advisers Act of 1940.

The Treasurer shall establish written procedures for the operation of the investment program consistent with this investment policy as well as the establishment of a system of internal controls to regulate the activities of subordinate officials (see attached Internal Control Guidelines for related investment activities and party responsible for each activity).

The procedures should include reference to safekeeping, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer.

VII. PUBLIC TRUST

All participants in the investment process shall act as custodians of public funds. 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. In a diversified portfolio it must be recognized that occasional measured losses are inevitable and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

VIII. ETHICS AND CONFLICTS OF INTEREST

Officers and employees 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 Finance Director are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC).

IX. QUALIFIED BROKER/DEALERS

The City shall transact business only with banks, savings and loans, and with broker/dealers. Investment staff shall investigate dealers who wish to do business with the City to determine if they are adequately capitalized, have pending legal action against the firm or the individual broker, and make markets in the securities appropriate to the City's needs. If the City utilizes an external investment manager, the City may utilize the manager's approved broker/dealer list. The manager is responsible for the investigation and review of all broker/dealers on the manager's approved list.

The City Treasurer shall annually send a copy of the current investment policy to all broker/dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the City's investment policies and intends to sell the City only appropriate investments authorized by this investment policy. If the City utilizes an external investment manager the investment policy shall be sent to the manager in lieu of the broker/dealers.

X. AUTHORIZED INVESTMENTS

Investment of City funds is governed by the California Government Code Sections 53600 et. seq. Within the context of these limitations, the following investments and their respective additional limitations, are authorized. Where this Policy specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. A security purchased in accordance with this Policy shall not have a forward settlement date exceeding 45 days from the time of investment.

1. United States Treasury Bills. Bonds, and Notes are those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio which can be invested in this category, although a five year maturity limitation is applicable.

2. 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 percentage limitation of the portfolio which can be invested in 'this category, although a five year maturity limitation is applicable.

   a. Any mortgage pass through security issued and guaranteed by a Federal Agency with a maximum final maturity of five years. Purchase of securities authorized by this subdivision may not exceed 20 percent of the City's surplus money.

3. California State and Local Agency Obligations. Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency or by a department, board, agency or authority of the state or any local agency. Municipal obligations described in this paragraph and in the paragraph below shall be rated in a rating category of “A” or its equivalent or better by a nationally recognized statistical rating organization (NRSRO) and may not exceed 30 percent of the City's total portfolio.

4. Other State Obligations. Registered treasury notes or bonds of any of the other 49 United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California. Municipal obligations described in this paragraph and in the paragraph above shall be rated in a rating category of “A” or its equivalent or better by an NRSRO and may not exceed 30 percent of the City's total portfolio.

Investments detailed in items 5 through 13 are further restricted to a maximum of 5 percent of the cost value of the portfolio in any one issuer name. The total value invested in any one issuer shall not exceed 5% of the issuer's net worth. Again, a five year maximum maturity limitation is applicable unless further restricted by this policy.

5. Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as bankers' acceptances, the short-term paper of which is rated in the highest category by an NRSRO Bankers' acceptances purchased may not exceed 180 days to maturity or 40% of the cost value of the portfolio.

6. Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

(1) The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation. (B) Has total assets in excess of five hundred million dollars ($500,000,000). (C) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.

(2) The entity meets the following criteria: (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (B) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (C) Has commercial paper that is rate "A-1" or higher, or the equivalent, by an NRSRO.

Eligible commercial paper shall have a maximum rating of 270 days or less Investment in commercial paper my not exceed 40 percent of the City's total portfolio. The City may invest no more than 5 percent of its total investment assets in the commercial paper and the medium-term notes of any single issuer.

7. Negotiable certificates of deposit issued by a nationally or state chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally-licensed or state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated in a rating category of “A” (long-term) or “A-1” (short-term) or their equivalents or better by an NRSRO. Purchases of negotiable certificates of deposit may not exceed 30% of total portfolio. A maturity limitation of five years is applicable.

8. Repurchase agreements which specify terms and conditions may be transacted with banks and broker/dealers. The maturity of the repurchase agreements shall not exceed 90 days. The market value of the securities used as collateral for the repurchase agreements shall be monitored by the investment staff and shall not be allowed to fall below 102% of the value of the repurchase agreement. A Master Repurchase Agreement must be executed with the bank or dealer prior to investing in a Repurchase Agreement.

9. Local Agency Investment Fund (LAIF) which is a State of California managed investment pool may be used up to the maximum permitted by California State law. The LAIF portfolio shall be reviewed periodically.

10. Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 25% of the investment portfolio may be invested in this investment type.

11. Medium Term Corporation Notes, with a maximum maturity of five years may be purchased. Securities eligible for investment shall be rated in a rating category of “A” or its equivalent or better by an NRSRO. Purchase of medium term notes may not exceed 30% of the market value of the portfolio and no more than 5 percent of the portfolio may be invested in the commercial paper and the medium-term notes of any single issuer.

12. Shares of beneficial interest issued by diversified management companies, that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two NRSROs or (2) have an investment advisor 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 five hundred million dollars ($500,000,000).

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

a. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
b. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q) Government Code Section 53601, inclusive.
c. The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

14. United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.

15. A mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond. For securities eligible for investment under this subdivision not issued or guaranteed by an agency or issuer identified in subdivision 1 or 2 of this Policy section, the following limitations apply: (A) The security shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. (B) Purchase of securities authorized by this subdivision may not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section.

Various daily cash funds administered for or by trustees, paying agents and custodial banks contracted by the City of Manteca may be purchased as allowed under State of California Government Code. Only funds holding U. S. Treasury or government agency obligations can be utilized.

The following summary of maximum percentage limits, by instrument, is established for the City's total pooled funds portfolio:

Investment Type	Percentage
Local Agency Investment Funds	State Treasurer Policy limit/acct.
U.S. Treasury Bonds/Notes/Bills	Up to 100%
U.S. Government Agency Obligations	Up to 100%
Municipal Obligations (CA and other)	Up to 30%
Bankers' Acceptances	Up to 40%
Time Certificates of Deposit	Up to 25%
Medium Term Corporation Notes	Up to 30%
Commercial Paper	Up to 40%
Negotiable Certificates of Deposit	Up to 30%
Repurchase Agreements	Up to 100%
LGIPs	Up to 50%
Supranationals	Up to 30%
Asset-Backed Securities	Up to 20%

XI. INVESTMENT POOLS/MONEY MARKET FUNDS

Governmental sponsored pools and money market funds are excellent short-term cash management facilities. These pools/funds can provide safety, liquidity and yield in a single investment instrument.

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. The investigation should include, but is not limited to, obtaining information regarding the following:

- A description of eligible investment. securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded, including settlement processes, and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule, and when and how it is assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

XII. INELIGIBLE INVESTMENTS

Investments not described herein, including but not limited to, reverse repurchase agreements, derivatives, common stocks, reverse floaters, inverse floaters or any security that could result in zero interest accrual if held to maturity are prohibited from use in this portfolio, except as provided in the subsequent paragraph.

Notwithstanding the prohibitions stated in the above paragraph, effective January 1, 2021, the City may invest in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. The City may hold these instruments until their maturity dates. Securities described in this paragraph shall remain in effect only until January 1, 2026, and as of that date is repealed.

XIII. COLLATERALIZATION

Collateralization shall be required on two types of investments:

1. Time Certificates of Deposit in excess of the amount federally insured, and
2. Repurchase agreements.

For Time Certificates of Deposit in excess of the amount federally insured, the general collateralization level shall be 110% of the amount invested. If the security used for collateral is a mortgage backed security, the collateralization level shall be 150% of the amount invested. (Gov't Code Sec. 53652).

For repurchase agreements, the collateralization level shall be at least 102% of the market value of the agreement.

The collateral shall be held by an independent third party with whom the entity has a current custodial agreement and the right of collateral substitution is granted. In order to conform with the provisions of the Federal bankruptcy code which provides for liquidation of securities held as collateral, the only securities acceptable as collateral shall be certificates of deposit, mortgage related securities (as defined in section 3 of the Securities Exchange Act of 1934), mortgage loans, interests in mortgage related securities or mortgage loans, eligible bankers' acceptances, or securities that are the direct obligations of, or are fully guaranteed as to principal and interest by the United States or any agency of the United States.

XIV. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery versus payment (DVP) basis. This means that the securities shall be delivered to the City or the City's designated custodian upon receipt of payment by the City.

All securities that may be purchased, including collateral for repurchase agreements, shall be held by a third party custodian designated by the Treasurer whenever possible. These securities shall be held in the City's name and control and third party custody shall be evidenced by safekeeping receipts. The third party custodian shall send the City, on a monthly basis, a statement of what is safe-kept and this statement shall be reconciled to the City's record on a monthly basis. Securities held in custody for the City shall be independently audited on an annual basis to verify investment holdings.

XV. DIVERSIFICATION OF INVESTMENT

The City's investment portfolio shall be diversified to avoid incurring unreasonable and avoidable risks with regard to specific investment types. Within investment types, the City shall also maintain a mix of securities to avoid concentrations within individual financial institutions, geographic areas, industry types and maturity dates.

XVI. MAXIMUM MATURITIES

To the extent possible, the City of Manteca shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City shall not directly invest in securities maturing more than 5 years from the date of purchase. For purposes of compliance with this Policy, an investment's term or remaining maturity shall be measured from the settlement date to final maturity. U.S. Treasuries and Federal Agencies with maturities longer than 5 years may be purchased for specific purposes with the prior approval by the City Council at least 90 days in advance of the purchase.

Maturities of investments shall be selected on liquidity requirements to minimize interest rate risk and maximize earnings. Current and expected yield curve analysis shall be monitored and the portfolio shall be invested accordingly. The weighted average maturity of the pooled portfolio should not exceed three and one-half years.

XVII. INTERNAL CONTROL

The Treasurer shall establish an annual review process of the investment program. This process may include testing of the investment program by the City's external auditor to determine the extent of compliance with the Investment Policy.

Existing procedures require all non-recurring wire transfers initiated by Finance Department - Treasury Section - be confirmed to the appropriate financial institution by other staff. Proper documentation obtained from confirmations and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliations are conducted to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the accounting section on a monthly basis.

XVIII. PERFORMANCE STANDARDS

The City's investment portfolio shall be designed with the objective of attaining market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

Market Yield (Benchmark)

The performance objective for the investments shall be to equal the return on a benchmark index, selected by the City and the external investment manager. The portfolio performance, at the end of each quarter, will be compared to the benchmark.

XIX. PORTFOLIO MANAGEMENT ACTIVITY

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

Active Portfolio Management
Through active fund and cash-flow management taking advantage of current economic and interest rate trends, the portfolio yield may be enhanced with limited and measurable increases in risk by extending the weighted maturity of the total portfolio.

Selling Securities Prior to Maturity
It is the City's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars. However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in lime. It is further recognized, that in a well-diversified investment portfolio, occasional measured losses are inevitable due to economic, bond market or individual security credit analysis. These occasional losses must be considered within the context of the overall investment program objectives and the resultant long term rate-of-return. The City may take advantage of security swap opportunities to improve the overall portfolio yield, credit quality or duration. A swap may be selected even if the transactions result in an accounting loss. Documentation for swaps shall be included in the City's permanent investment file documents.

Portfolio Maturity Management
When structuring the maturity composition of the portfolio, the City shall evaluate current and expected interest rate yields and necessary cash flow requirements. It is recognized that in normal market conditions longer maturities produce higher yields. However, the securities with longer maturities also experience greater price fluctuations when the level of interest rates change.

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Competitive Bidding
It is the policy of the City to require competitive bidding for investment transactions that are not classified as "new issue" securities. For the purchase of non "new issue" securities and the sale of all securities at least three bidders must be contacted. Competitive bidding for security swaps is also suggested. However, it is understood that certain time constraints and broker portfolio limitations exist which would not accommodate the competitive bidding process. If a time or portfolio constraining condition exists, the pricing of the swap should be verified to current market conditions and documented for auditing purposes.

XX. REPORTING

The City Treasurer shall submit a quarterly report to the City Manager and City Council showing the type of investment, issuer and/or institution, date of maturity, amount of investment, current market value for all securities, rate of interest, and other relevant data that may be required. The quarterly report shall state compliance of the investment portfolio with the Investment Policy and shall include a statement denoting the ability of the City to meet its expenditure requirements for the next six months. The quarterly report shall be so submitted within 45 days following the end of the quarter covered by the report.

The City Treasurer shall make a monthly report of portfolio transactions to the legislative body.

XXI. LEGISLATIVE CHANGES

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

XXII. INTEREST EARNINGS

All moneys earned and collected from investments authorized in this policy shall be allocated monthly to various fund accounts based on the cash balance in each fund as a percentage of the entire pooled portfolio.

XXIII. LIMITING MARKET VALUE EROSION

The longer the maturity of securities, the greater their market price volatility. Therefore, it is the general policy of the City to limit the potential effects from erosion in market values by adhering to the following guidelines:

- All immediate and anticipated liquidity requirements shall be addressed prior to purchasing all investments.
- Maturity dates for long term investments shall coincide with significant cash flow requirements, where possible, to assist with short term cash requirements at maturity.
- All long-term securities shall be purchased with the intent to hold all investments to maturity under then prevailing economic conditions. However, economic or market conditions may change, making it in the City's best interest to sell or trade a security prior to maturity.

XXIV. STATEMENT OF INVESTMENT POLICY

The investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. The Treasurer shall also submit the investment policy annually to the City Council. Any amendments to the investment policy must be approved by City Council resolution.

XXV. GLOSSARY OF TERMS

Accrued Interest - Interest earned but not yet received.

Active Deposits - Funds which are immediately required for disbursement.

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

Asset-Backed Securities - Securities that are supported by pools of assets, such as installment loans or leases, or by pools of revolving lines of credits. Asset-backed securities are structured as trusts in order to perfect a security interest in the underlying assets.

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).

Bid - The price offered by a buyer of securities. (When you are selling securities, you ask for a bid).

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 shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or plus accretion of discount.

Broker - An individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor.

Certificate of Deposit-A time deposit generally issued by a commercial bank and insured by the FDIC. The term of a CD generally ranges from one month to five years.

Collateral - Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Annual Comprehensive Financial Report (ACFR) - The official annual financial report for the City. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principals (GAAP)

Coupon - The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Analysis - A critical review and appraisal of the economic and financial conditions of a business or organization and their ability to meet debt obligations.

Current Yield - The interest paid on an investment expressed as a percentage of the current price of the security.

Custody - A financial institution that has the legal responsibility for a customer's securities. This implies management as well as safekeeping.

Debenture - A bond secured only by the general credit of the issuer.

Delivery vs. Payment (DVP) - Delivery of securities with a simultaneous exchange of money for the securities.

Derivatives - (1) Financial instruments whose return profile is linked to, or derived from, the security, and may include a leveraging factor, or (2) financial contracts based upon notional amount whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities, or commodities).

Discount - The condition of the price of a bond that is lower than par. The discount equals the difference between the price paid for a security and the security's par value.

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

Diversification . - Dividing investment funds among a variety of securities offering independent returns and risk profiles.

Duration - The weighted average maturity of a bond;s cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent; the fulcrum of a bond's present value cash flow time line.

Federal Agency Security - A security issued by a federal agency or certain federally chartered entities (often referred to as government-sponsored enterprises or GSEs). Agency securities typically are not guaranteed by the federal government, particularly those of GSEs.

Federal Deposit Insurance Corporation (FDIC) - U.S. corporation insuring deposits in the U.S. against bank failure. The FDIC was created in 1933 to maintain public confidence and encourage stability in the financial system through the promotion of sound banking practices.

Federal Funds Rate - The interest rate at which a depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight. The Federal Open Market Committee sets the target fed funds rate and the rate is achieved by the Federal Reserve through open-market operations.

Federal Home Loan Banks (FHLB) - One of the large Federal Agencies. A Government Sponsored Enterprise (GSE) 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. Although FHLB does not directly fund mortgages, it provides a stable supply of credit to thrift institutions that make new mortgage loans. FHLB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes and callable agency securities.

Federal Home Loan Mortgage Corporation (FHLMC) - One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages financed by the sale of debt and guaranteed mortgage backed securities. FHLMC debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "reference note" program.

Federal National Mortgage Association (FNMA) - One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of - debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "benchmark note" program.

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. The Fed, as it is commonly called, regulates the U.S. monetary and financial system. The Federal Reserve System is composed of a central governmental agency in Washington, D.C. (the Board of Governors) and twelve regional Federal Reserve Banks in major cities throughout the United States.

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.

Freddie Mac - Trade name for the Federal Home Loan Mortgage Corporation (FHLMC).

Ginnie Mae - Trade name for the Government National Mortgage Association (GNMA).

Government National Mortgage Association (GNMA) - One of the large Federal Agencies. Government-owned Federal Agency that acquires, packages, and resells mortgages and mortgage purchase commitments in the form of mortgage-backed securities. Largest issuer of mortgage pass-through securities. GNMA debt is guaranteed by the fuil faith and credit of the U.S. government (one of the few agencies that is actually full faith and credit of the U.S.).

Government Sponsored Enterprises (GSEs) - Privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. Examples of GSEs include: Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Farm Credit Bank and the Resolution Funding Corporation.

Interest Rate - The annual yield earned on an investment, expressed as a percentage.

Investment Grade Securities - Corporate or municipal bonds that are rated BBB or higher be a NRSRO. A security rated BBB or above indicates the bond has a relatively low risk of default.

Liquidity - Refers to the ability to rapidly convert an investment into cash with minimal risk of losing some portion of principal and/or interest.

Local Government Investment Pool (LGIP) - The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

Master Repurchase Agreement - A written contract covering all future transactions between the parties to repurchase and/or reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will offer specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

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

Money Market - The market in which short-term debt instruments (bills, commercial paper, banker's acceptances, etc.) are issued and traded.

National Recognized Statistical Rating Organization (NRSRO) - A credit rating agency registered with the SEC. A credit rating agency provides an opinion on the creditworthiness of an entity and the financial obligations issued by an entity.

Negotiable Certificate of Deposit - A certificate of deposit with a minimum face value of $100,000. These are guaranteed by the bank and can usually be sold in a highly liquid secondary market, but they cannot be cashed-in before maturity.

New Issue - Term used when a security is originally "brought" to market.

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 reserve 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.

Primary Dealer - A group of 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. Primary dealers can buy and sell government securities directly with the Fed.

Prudent Person Rule - A legal maxim restricting the discretion in a client's account to investments that a prudent person seeking reasonable income and preservation of capital might buy for his or her own portfolio.

Purchase Date - The date in which a security is purchased for settlement on that or a later date.

Qualified Public Depositories -A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less approved by the Public Deposit Protection Commission to hold public deposits.

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.

Repurchase Agreement (RP or REPO) - A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

Reverse Repurchase Agreement (Reverse REPO) - A transaction where the seller (City) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

Risk - Degree of uncertainty of return on an asset.

Safekeeping - See custody.

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

Securities and Exchange Commission (SEC) - 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.

Supranational Institutions - International institutions formed by two or more governments that transcend boundaries to pursue mutually beneficial economic or social goals. There are three supranational institutions that issue obligations that are eligible investments for California local agencies: the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).

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.

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 ten years.

Treasury Notes - Medium-term coupon-bearing U. S. Treasury securities issued as direct obligations of the U. S. Government and having initial maturities from two to ten 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