

<b>POLICY NO. 1.4</b> Investment Policy	<b>DISTRICT CODE</b> Chapter 3.10 Sections 3.10.010 - 3.10.160	<b>APPROVAL DATE</b> 01/23/2024 <b>EFFECTIVE DATE</b> 01/24/2024
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**SECTION 1: INTRODUCTION** (3.10.010)

The purpose of this investment policy (“Policy”) is to provide guidelines for the prudent investment of the Cucamonga Valley Water District’s (“District”) funds in conformance with California Government Code requirements governing the investment of public funds. Funds will be managed to provide for daily cash flow requirements and to meet the objectives of this Policy.

**SECTION 2: SCOPE** (3.10.020)

This Policy applies to all operating funds of the District, which are under the control of the General Manager/CEO and/or the Director of Finance and Technology Services (Finance Director). These funds are accounted for in the Cucamonga Valley Water District’s Annual Comprehensive Financial Report (ACFR). The investment of retirement-related funds is addressed in District Administrative Policy 1.6.

Bond proceeds shall be invested in securities permitted by the applicable bond documents. If the bond documents are silent as to the permitted investments, bond proceeds will be invested in the securities permitted by this Policy. Notwithstanding the other provisions of this Policy, the percentage or dollar portfolio limitations listed elsewhere in this Policy do not apply to bond proceeds.

**SECTION 3: INVESTMENT OBJECTIVES** (3.10.030)

As specified in Government Code Section 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary

objectives, in priority order, of the District's investment activities and of this Policy shall be:

1. **Safety:** Safety of principal is the District's foremost investment objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the District will diversify its investments by investing funds among independent financial institutions offering a variety of securities with independent returns. Investments shall be made with the aim of avoiding capital losses due to issuer default, broker-dealer default or market value erosion.
2. **Liquidity:** The investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which are reasonably anticipated.
3. **Yield:** The District's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, as long as it does not diminish the objectives of Safety and Liquidity.

**SECTION 4: DELEGATION OF AUTHORITY** (3.10.040)

The authority of the District's Board of Directors ("Board") to invest or reinvest funds of the District is delegated by Board Resolution in conjunction with the annual investment policy review. Management responsibility for the investment program is hereby delegated to the Finance Director who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials, and their procedures in the absence of the Finance Director. The Finance Director shall establish procedures for the management of investment activities, including the activities of staff consistent with this Policy.

The Finance Director may retain the services of an outside investment advisor or manager as approved by the Board to assist with the District's investment program. Qualified outside managers will be either SEC Registered Investment Advisors or Bank Money Managers. The investment advisor shall make all investment decisions and transactions in strict accordance with State and Federal law, this Policy and such other written instructions as are provided by the District. The investment advisor or manager may not take possession of the District's cash or securities. The performance and service levels of investment advisors and managers shall be reviewed annually.

**SECTION 5: PRUDENCE** (3.10.050)

All participants in the investment process shall recognize that the investment program is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism worthy of the public trust. The standard of prudence to be used by the District shall be the "prudent investor" standard and shall be applied in the context of managing the overall portfolio. The Finance Director and the delegated investment officers, acting in accordance with written procedures and this Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

**SECTION 6: INTERNAL CONTROLS** (3.10.060)

The Finance Director shall establish a system of internal controls designed to prevent losses due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, and/or imprudent actions by employees of the District. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. Internal control procedures should include, but are not limited to, separation of duties, written confirmations of transactions or wire transfers, safekeeping of securities, and prevention of collusion, as appropriate. Compliance with this Policy and internal controls shall be reviewed annually by the District's independent, external auditors.

**SECTION 7: ETHICS AND CONFLICTS OF INTEREST** (3.10.070)

Officers and employees involved in the investment process shall 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 decisions. Employees and investment officials shall disclose to the District's General Manager/CEO and on the annual Statement of Economic Interest Form any material financial interest in the financial institutions that conduct business with the District and they shall further disclose any large personal financial/investment positions that could be related to the performance of the District.

**SECTION 8: AUTHORIZED BROKER-DEALERS** (3.10.080)

A competitive process, whenever practical, will be used for investment transactions. For any investment transaction not conducted directly with the issuer, it shall be the District's policy to purchase securities only from authorized institutions and firms. No deposit of public funds shall be made except in a qualified public depository as established by state laws.

If the District plans to initiate investment transactions on its own behalf, excluding bank deposits and investments made directly with an issuer, the Finance Director shall maintain a list of authorized broker/dealers and financial institutions that are approved for investment purposes. All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate and deemed by the District:

- a. Must be in business for at least three (3) years
- b. Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
- c. Proof of state registration
- d. Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)

- e. Certification of having read and understood and agreeing to comply with the District's Policy and are free of conflicts of interest
- f. Evidence of adequate insurance coverage

If the District has contracted with an investment advisor to provide investment services, the investment advisor may use their own list of approved issuers, brokers/dealers and financial institutions to conduct transactions on the District's behalf.

**SECTION 9: SAFEKEEPING OF SECURITIES** (3.10.090)

To protect against potential losses by the collapse of individual securities dealers, all trades will be executed on a delivered versus payment (DVP) basis with the securities to be held in safekeeping by a third party custodian, acting as agent for the District under the terms of a custody agreement or a Master Repurchase Agreement. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) LAIF and joint powers authority pools; (ii) placement certificates of deposit, and (iii) money market mutual funds since the purchased securities are not deliverable. Evidence of each these investments will be held by the Finance Director.

No outside broker-dealer or advisor may have access to the District's funds, accounts or investments. Any transfer of funds handled through a broker-dealer must be approved by persons identified in the "Delegation of Authority" section of this Policy.

**SECTION 10: AUTHORIZED INVESTMENTS** (3.10.100)

The District's investments are governed by the Government Code, Sections 53601 and 53601.6. Within the investments permitted by the Government Code, the District seeks to further restrict eligible investment to the investments listed below. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters will take precedence. Percentage holding limits listed in this section apply at the time the security is purchased. If, at any time, the percentage holding limits are exceeded by incidents such as fluctuating portfolio size, the Finance Director is not required to sell the underlying securities. Ratings, where shown, specify the minimum credit rating category required at purchased. In the event a security held by the District is subject to a credit rating change that brings it below the minimum credit ratings specified in this Policy, the Finance Director should notify the Board of the change. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rate drops, and the market price of the security. The maximum maturity, percentage holding limits, and minimum credit quality for all authorized investments set by this policy are shown in the following table.

Investment Type	Maximum Maturity	Maximum % of Portfolio	Minimum Quality Requirements
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**ADMINISTRATIVE POLICY MANUAL**  
POLICY NO. 1.4, INVESTMENT POLICY

Banker's Acceptances	180 days	25%	A-1 (short term)
Collateralized Bank Deposits	5 years*	None*	N/A
Commercial Paper	270 days	25%*	Highest rating by an NRSRO
Joint Powers Authority Pool	N/A	None	Multiple*
Local Agency Investment Fund (LAIF)	N/A	None*	None
Medium-Term Notes	5 years	30%	A
Money Market Mutual Funds	N/A	20%	Multiple*
Mortgage Pass-Through & Asset-Backed Securities	5 years	20%	AA
Negotiable Certificates of Deposit	5 years	30%	A (long-term), A-1 (short-term)
Placement Service Deposits & Placement Service Certificates of Deposit	5 years	30%	None
Repurchase Agreements	90 days	10%	Multiple*
State Obligations- CA and Other & CA Local Agency Obligations	5 years	30%	A (long-term), A-1 (short-term)
Supranational Obligations	5 years	30%	AA
United States Agency Obligations	5 years	None*	None
United States Treasury Obligations	5 years	None	None

\* See related section below

- a. **Bankers' Acceptances** . Bankers' acceptances, otherwise known as bills of exchange or time drafts, that are drawn on and accepted by a commercial bank. Purchases are limited to bankers' acceptances issued by domestic or foreign

banks, which are eligible for purchase by the Federal Reserve System. Purchases of bankers' acceptances may not exceed 180 days maturity. Eligible bankers' acceptances are restricted to issuing financial institutions that have short-term debt rated in the rating category of "A-1" or its equivalent or better by a NRSRO. A maximum of 25 percent of the portfolio may be invested in this category.

- b. **Collateralized Bank Deposits.** FDIC insured or fully collateralized bank deposits, including, but not limited to, demand deposit accounts, savings accounts, market rate accounts, and time certificate of deposits. To be eligible to receive District deposits, the financial institution must be located in California and have received a minimum overall satisfactory rating, under the Community Redevelopment Act, for meeting the credit needs of California Communities in its most recent evaluation. The amount on deposit in any financial institution shall not exceed the shareholder's equity. Bank deposits are required to be collateralized as specified under Government Code Section 53630 et. seq. The Finance Director, at his/her discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance. The District shall have a signed agreement with any depository accepting District funds per Government Code Section 53649. The maturity of time certificate of deposits (TCDs) may not exceed 1 year. There is no limit on the percentage of the portfolio that may be invested in bank deposits. However, a maximum of 20 percent of the portfolio may be invested in TCDs.
- c. **Commercial Paper.** 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: (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of five hundred million dollars (\$500,000,000), and (iii) 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.

Eligible commercial paper shall have a maximum maturity of 270 days. A maximum of 25 percent of the portfolio may be invested in this category, or 40 percent of the portfolio if the District's investment assets total more than \$100 million.

- d. **Joint Powers Authority Pool.** Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7. To be eligible for purchase, the pool shall meet all of the following conditions: (i) must meet the requirements of California Government Code Section 53601(p), (ii) the pool must seek to achieve a stable Net Asset Value ("NAV") at maturity, and (iii) the pool must be rated "AA" or its equivalent or better by a NRSRO. There is no limitation on the percentage of the portfolio that may be invested in this category.

Whenever the District has any funds invested in a Local Government Investment Pools, the Finance Director shall maintain on file a copy of the pool's

current information statement. In addition, the Finance Director should review the pool's summary portfolio holdings on a quarterly basis.

- e. **Local Agency Investment Fund (LAIF).** There is no limitation as to the percentage of the portfolio that may be invested in this category. However, the amount invested may not exceed the current maximum allowed by LAIF.
- f. **Medium-Term Notes.** Medium-term notes are defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Purchases are limited to securities rated in a rating category of "A", or its equivalent or better, by a NRSRO. A maximum of 30 percent of the portfolio may be invested in this category.
- g. **Money Market Mutual Funds.** Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission.

The company shall have met either of the following criteria: (A) attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs and (B) retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). A maximum of 20 percent of the portfolio may be invested in this category.

- h. **Mortgage Pass-Through & Asset-Backed Securities.** A mortgage pass through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond with a maximum remaining maturity of five years or less. Securities shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO. A maximum of 20% of the portfolio may be invested in this category. The credit and holding limits under this section do not apply to mortgage-backed securities issued by the U.S. Treasury or Federal Agencies.
- i. **Negotiable Certificates of Deposit.** Negotiable certificates of deposit (NCDs) issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases are limited to institutions that are rated in a rating category of "A" (long-term) or "A-1" (short-term) or their equivalents or better by a NRSRO. NCDs for which the full amount of the principal and the interest that may be accrued during the maximum term of each certificate is insured by federal deposit insurance are exempt from the rating requirements. A maximum of 30 percent of the portfolio may be invested in this category.

- j. **Placement Service Deposits & Placement Service Certificates of Deposit.** Deposits placed through a deposit placement service shall meet the requirements under Government Code Section 53601.8. The full amount of the principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. A maximum of 30 percent of the portfolio may be invested in this category.
- k. **Repurchase Agreements.** Repurchase agreements are to be used as short-term investments not to exceed 90 days. Repurchase agreements shall only be made only with counterparties that are primary dealers of the Federal Reserve Bank of New York or a nationally or state-chartered bank that has or has had a significant banking relationship with the District. Furthermore, the counterparty shall have the following qualifications: (i) a long-term debt rating in a rating category of “A” or its equivalent or better by a NRSRO; (ii) a short-term credit rating of “A-1”, or its equivalent or better by a NRSRO; (iii) minimum assets and capital size of \$25 billion in assets and \$350 million in capital; (iv) five years of acceptable audited financial results; and (v) a strong reputation among market participants.

The District shall have a properly executed master repurchase agreement with each counterparty for which it enters into an agreement for repurchase agreements. Collateral of at least 102 percent of market value of principal and accrued interest is required. For any repurchase agreement with a term of more than one day, the value of the underlying securities must be reviewed on an on-going basis according to market conditions. Market value must be calculated each time there is a substitution of collateral. Collateral is limited to obligations of the United States government and its agencies. Collateral must be delivered to the District’ custodian bank or handled under a properly executed master repurchase agreement. The District, or its trustee, shall have a perfected first security interest in all collateral. A maximum of 10 percent of the portfolio may be invested in this category.

- i. **State Obligations- California & Others and California Local Agency Obligations.** Registered treasury notes or bonds of this state or any of the other 49 United States, 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 this state or any of the other 49 United States.

Bonds, notes, warrants, or other evidences of indebtedness of any local agency, including the District’s own bonds, within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

Purchases are limited to securities that are rated in a rating category of “A” (long-term) or “A-1” (short-term) or their equivalents or better by a Nationally Recognized Statistical Rating Organization (“NRSRO”). A maximum of 30

percent of the portfolio may be invested in this category.

- m. **Supranational Obligations** . 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. Purchases are limited to securities that are rated in a rating category of “AA” or its equivalent or better by a NRSRO. A maximum of 30 percent of the portfolio may be invested in this category.
- n. **United States Agency Obligations** . Federal agency or United States government-sponsored enterprise senior debt obligations, participations, mortgage-backed securities or other instruments, including those issued by or fully guaranteed as to principal and interest by Federal agencies or United States government-sponsored enterprises. There is no limitation as to the percentage of the portfolio that may be invested in this category; however, purchases of callable Federal Agency obligations are limited to a maximum of 30 percent of the portfolio.
- o. **United States Treasury Obligations** . United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio that may be invested in this category.

**SECTION 11: DIVERSIFICATION AND MAXIMUM MATURITIES** (3.10.110)

It is the policy of the District to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. Diversification strategies shall be determined and revised periodically. Adequate diversification shall be applied to the individual issuers of debt, both within each class of investments and collectively. With the exception, of U.S. Treasuries Obligations, U.S. Agency securities, Joint Powers Authority Pools, Money Market Mutual Funds, and LAIF, the District’s investment in any one issuer is limited to 10 percent of the portfolio.

To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. The maximum maturity of individual investments shall not exceed the limits set forth in Section 10. No investment shall exceed a maturity of five years from the date of purchase unless the Board has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board no less than three months prior to the investment. With respect to maximum maturities, this Policy authorizes investing bond reserve funds beyond five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

**SECTION 12: PROHIBITED INVESTMENTS** (3.10.120)

Section 53601.6 of the Government Code lists the investments that are prohibited. Prohibited investments shall include, but are not limited to, equity securities, inverse

floaters, range notes, interest-only strips that are derived from a pool of mortgages, or any investment that could result in zero interest earned if held to maturity. The District 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. A local agency may hold these instruments until their maturity dates.

The purchase of any investment permitted by the Government Code, but not listed as an authorized investment in this Policy is prohibited without the prior approval of the Board.

**SECTION 13: PERFORMANCE** (3.10.130)

The investment performance of the District's operating portfolio shall be evaluated and compared to an appropriate benchmark in order to assess the success of the investment program relative to the District's Safety, Liquidity and Yield objectives. This review will be conducted annually with the Board's Finance Committee.

**SECTION 14: INVESTMENT REPORTING** (3.10.140)

The Finance Director will prepare a monthly report of investment that shall include a complete description of the portfolio, type of investments, issuers, maturity dates, par values and current market values of each component of the portfolio, list of transactions, including funds managed for the District by third party contract managers. The report will include a certification that: (1) all investment actions executed since the last report have been made in full compliance with this Policy and (2) the report shall include a statement denoting the ability of the District to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

**SECTION 15: POLICY ADOPTION AND REVIEW** (3.10.150)

This Policy shall be adopted by resolution of the Board. Moreover, the Policy shall be reviewed on an annual basis and modifications, if any, must be approved by the Board.

**SECTION 16: DEFINITION OF TERMS** (3.10.160)

The following definitions shall apply as they relate to this Policy:

**AGENCY SECURITIES:** Securities issued by a U.S. government-sponsored entity (GSE) and federally related institutions. Examples of a GSE include: Federal Farm Credit Bank System (FFCB), Federal Home Loan Bank (FHLB), and Federal Home Loan Mortgage Company (FHLMC-Freddie Mac), Federal National Mortgage Association (FNMA-Fannie Mae).

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

**ASSET-BACKED SECURITIES (ABS):** Securities whose income payments and hence value is derived from and collateralized (or "backed") by a specified pool of underlying assets which are receivables. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can comprise common payments credit cards, auto loans, mortgage loans, and other types of

assets. Interest and principal is paid to investors from borrowers who are paying down their debt.

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

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

**BID:** The price offered by a buyer of securities.

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

**CALLABLE SECURITY:** A security that is redeemable by the issuer before the scheduled maturity. Bonds are usually called when the interest rates fall so significantly that the issuer can save money by floating new bonds at lower rates.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

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

**ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR):** The official annual report of the Cucamonga Valley Water District. It includes financial statements for each individual fund prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

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

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

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

**DELIVERY VERSUS PAYMENT (DVP):** The delivery of securities with an exchange of money for the securities.

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

**DISCOUNT:** The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns with the goal of spreading risk throughout the portfolio holdings.

**DURATION:** A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

**LOCAL AGENCY INVESTMENT FUND (LAIF):** A voluntary program created by state statute as an investment alternative for California's local governments and Special Districts under the administration of the California State Treasurer's Office. All securities are purchased under the authority of the Government Code Section 16430 and 16480.4.

**JOINT POWERS AUTHORITY POOL (JPA):** A state or local government pool offered to public entities for the investment of public funds.

**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 that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

**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, bankers' acceptances, etc.) are issued and traded.

**NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO):** A credit rating agency that provides credit ratings that are used by the U.S. government and investors as benchmarks. Examples include Moody's, Standard & Poor's, and Fitch Ratings.

**OFFER:** The price asked by a seller of securities.

**OPEN MARKET OPERATIONS:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the

FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

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

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

**PRUDENT INVESTOR STANDARD** : An investment standard to be followed by those authorized to make investment decisions on behalf of a local agency. Those authorized 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 that agency.

**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 than its maximum liability and which has been 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 the current income return.

**REPURCHASE AGREEMENT (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.

**REVERSE REPURCHASE AGREEMENT (REVERSE REPO):** A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

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

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

**SUPRANATIONAL:** Securities issued or unconditionally guaranteed by multi-lateral international financial institutions whose member nations contribute capital and participate in management.

**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 10 years.

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

**YIELD:** The rate of annual income return on an investment, expressed as a percentage.

### **POLICY REVISION DATES**

01/23/2023 (Resolution No. 2023-1-2)  
02/14/2023 (Resolution No. 2023-2-2)  
01/25/2022 (Resolution No. 2022-1-3)  
02/23/2021 (Resolution No. 2021-2-1)  
02/12/2019 (Resolution No. 2019-2-4)  
01/23/2018 (Resolution No. 2018-1-1)  
02/23/2016 (Resolution No. 2016-10-1)  
02/10/2015 (Resolution No. 2015-2-10)  
02/11/2014 (Resolution No. 2014-2-1)  
02/12/2013 (Resolution No. 2013-2-1)  
12/13/2011 (Resolution No. 2011-12-1)  
11/23/2010 (Resolution No. 2010-11-1)  
12/08/2009 (Resolution No. 2009-12-1)  
11/25/2008 (Resolution No. 2008-11-2)  
01/09/2007 (Resolution No. 2007-1-1)  
12/12/2006  
08/25/2005  
02/10/2004 (Resolution No. 2004-2-1)  
02/05/2002 (Resolution No. 2002-2-2)