CITY OF HUNTINGTON BEACH

STATEMENT OF INVESTMENT POLICY

FISCAL YEAR 2016/2017

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TABLE OF CONTENTS

SECTION

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Statement of Investment Policy

1.0 Purpose:

This policy is intended to provide guidelines for the prudent investment of the City's cash balances, and outline the policies to assist in maximizing the efficiency of the City's cash management system while meeting the daily cash flow demands of the City.

2.0 Policy:

The investment practices and policies of the City of Huntington Beach are based upon state law and prudent money management. The primary goals of these practices are:

A. To assure compliance with all Federal, State, and local laws governing the investment of public funds under the control of the City Treasurer.

   i. Government Code Section 53646 previously mandated that annual investment policies and quarterly reports be rendered to the legislative body. AB2853 amended the Government Code to remove the requirements and the rendering of these documents is permissive rather than mandated.

B. To protect the principal moneys entrusted to this office.

C. Achieve a reasonable rate of return within the parameters of prudent risk management while minimizing the potential for capital losses arising from market changes or issuer default.

3.0 Scope:

This investment policy applies to all financial assets as indicated in 3.1 below of the City of Huntington Beach. These funds are accounted for in the City's *Comprehensive Annual Financial Report* and include:

3.1 Funds:

The City Treasurer is responsible for investing the unexpended cash in the City Treasury for all funds, except for the employee's pension funds, which are invested separately by CALPERS, those funds which are invested separately by the City Treasurer under bond indenture agreements, and funds which are invested separately by the City Treasurer or trustees under other agreements approved by Council such as the Retiree Medical Trust and the Supplemental Pension Trust. The City Treasurer will strive to maintain the level of investment of this cash that is not to be utilized for operating cash flow in the near future, as close as possible to 100%. These funds are described in the City's annual financial report and include:

3.1.1 General Fund

3.1.2 Special Revenue Funds

3.1.3 Capital Project Funds

3.1.4 Enterprise Funds

3.1.5 Trust and Agency Funds

3.1.6 Debt Service Funds

3.1.7 Infrastructure Funds

3.1.8 Capital Improvement Reserve Funds

3.1.9 Any new fund created by the legislative body, unless specifically exempted

This investment policy applies to all transactions involving the financial assets and related activity of the foregoing funds. It is the City's policy to pool funds for investment purposes to provide efficiencies and economies of scale. Investing through a pooled account will provide for greater use of funds by allowing for a more efficient cash flow, a reduction in transaction costs and a greater access to the market.

4.0 Prudence:

The standard of prudence to be used by the City Treasurer shall be the "**prudent investor**" standard. This shall be applied in the context of managing an overall portfolio. The "**Prudent Investor Rule**" provides, pursuant to California Government Code Section 53600.3, that 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.

4.1 The City Treasurer and the Deputy City Treasurer, as investment officers acting in accordance with written procedures and the investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported to the

City Council in a timely fashion and appropriate action is taken to control adverse developments.

5.0 Objective:

Consistent with this aim, investments are made under the terms and conditions of California Government Code Section 53600, et seq. Criteria for selecting investments and the absolute order of priority are:

5.1 Safety:

Safety of principal is the foremost objective of the investment program. Investments of the City of Huntington Beach shall be undertaken in a manner that seeks to ensure the preservation of capital 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.

5.2 Liquidity:

The investment portfolio will remain sufficiently liquid to enable the City of Huntington Beach to meet all reasonably anticipated operating requirements and to maintain compliance with any indenture agreement, as applicable. Liquidity is essential to the safety of principal. Furthermore, since all possible cash demands cannot be anticipated, the portfolio will invest primarily in securities with active secondary and resale markets.

5.3 Return on Investments:

The investment portfolio shall be designed with the objective of attaining a market-average rate of return throughout budgetary and economic cycles (market interest rates), within the City of Huntington Beach's investment policy's risk parameters and the cash flow needs of the City. See also Section 17.0.

6.0 Investment Advisory Board:

By City Charter, the City Treasurer is the custodian of all public funds of the City of Huntington Beach. The City Council may appoint Huntington Beach residents, professional, and non professional people, to serve on an Investment Advisory Board for the purpose of advising the City Treasurer on the City's investment program and at least quarterly, review the investment portfolio for compliance with the adopted investment policy.

7.0 Delegation of Authority:

In accordance with the State of California Government Code § 53607, the City Council delegates investment authority to the City Treasurer for a period of one year and such investment authority must be renewed annually. Adoption of this policy constitutes delegation of investment authority to the City Treasurer for the following year unless revoked in writing. Within the City Treasurer's office, the responsibility for the day to day investment of City funds will be the City Treasurer and is delegated to the Deputy City Treasurer in the absence of the City Treasurer (as allowable per State of California Government Code § 41006). The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

8.0 Ethics and Conflicts of Interest:

In addition to state and local statutes relating to conflicts of interest, all persons 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 officers are required to file annual disclosure statements as required for "public officials who manage public investments" (as defined and required by the Political Reform Act and related regulations, being Government Code Sections 81000 and the Fair Political Practices Commission (FFPC)).

9.0 Authorized Financial Dealers and Institutions:

The City Treasurer will maintain a list of the financial institutions and broker/dealers authorized to provide investment and depository services and will perform an annual review of the financial condition and registrations of qualified bidders and require annual audited financial statements to be on file for each company. The City shall annually send a copy of the current investment policy to all financial institutions and broker/dealers approved to do business with the City.

As far as possible, all money belonging to, or in the custody of, a local agency, including money paid to the City Treasurer or other official to pay the principal, interest, or penalties of bonds, shall be deposited for safekeeping in national or state chartered banks, savings associations, federal associations, credit unions, or federally insured industrial loan companies in this state selected by the City Treasurer that are qualified public depositories; or may be invested in the investments set forth in Section 10.0. To be eligible to receive local agency money, a bank, savings association, federal association, or federally insured industrial loan company shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low- and moderate-income neighborhoods.

To provide for the optimum yield in the investment of City funds, the City's investment procedures shall encourage competitive bidding on transactions from approved brokers/dealers. In order to be approved by the City, the dealer must be a "primary" dealer or regional dealer that qualifies under Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capitol Rule). The institution must have an office in California. The dealer must be experienced in institutional trading practices and familiar with the California Government Code as related to investments appropriate for the City; and, other criteria as may be established in the investment procedures. All broker/dealers and financial institutions who desire to become qualified bidders for investment transactions must submit a "Broker/Dealer Application" and related documents relative to eligibility including a current audited annual financial statement, U4 form for the broker, proof of state registration, proof of Financial Industry Regulatory Authority, Inc. (" FINRA") certification and a certification of having read and understood the City's investment policy and agreeing to comply with the policy. Capital requirements for registered government securities brokers and dealers shall meet or exceed the requirements as set forth by the Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capitol Rule). Such companies shall also have a minimum of five years of operation.

10.0 Authorized and Suitable Investments:

The City is authorized by California Government Code Section 53600, et. seq. to invest in specific types of securities. **<u>Investments not specifically listed below are deemed inappropriate and prohibited:</u>**

A. BANKERS ACCEPTANCES, **maximum 25%** of portfolio **(up to 40% with City Council approval). Maximum term of 180 days.**

Banks must have a short term rating of at least A1/P1 and a long-term rating of "A" or higher as provided by a nationally recognized statistical rating organization ("NRSRO"). No more than 30 percent of the agency's money may be invested in the bankers acceptances of any one commercial bank pursuant to this section.

B. NEGOTIABLE CERTIFICATES OF DEPOSIT, **maximum 30%** of portfolio. **Maximum term of 3 years (up to 5 years with City Council approval).**

Banks must have a short term rating of A1/P1 and a long term rating of "A" or higher as provided by an NRSRO.

C. COMMERCIAL PAPER, **maximum 25%** of portfolio. **Maximum term of 270 days**.

Commercial paper must be of "prime" quality of the highest ranking or of the highest letter and number rating as provided by an 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 "A" 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 programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
(C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

Split ratings (i.e. A2/P1) are not allowable. No more than 10 percent of the outstanding commercial paper of any single corporate issue may be purchased.

D. BONDS ISSUED BY THE STATE OF CALIFORNIA OR ANY OF THE OTHER 49 UNITED STATES. Maximum term of 5 years.

Bonds must have an "A" rating or higher by an NRSRO.

E. BONDS ISSUED BY THE CITY OR ANY LOCAL AGENCY WITHIN THE STATE OF CALIFORNIA. Maximum term of 5 years.

Bonds must have an "A" rating or higher by an NRSRO.

F. OBLIGATIONS OF THE UNITED STATES TREASURY. Maximum term of 5 years.

United States Treasury bills, bonds and notes or certificates of indebtedness, for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limit on the percentage of the portfolio that can be invested in this category.

G. U.S. GOVERNMENT AGENCY SECURITIES (FEDERAL AGENCIES). Maximum term of 5 years.

Obligations, participations or other instruments of or issued by a federal agency or a United States government-sponsored enterprise. There is no limit on the percentage of the portfolio that can be invested in this category.

H. REPURCHASE AGREEMENT. Maximum term of 3 months.

Investments in repurchase agreements may be made, on any investment authorized in this section, when the term of the agreement does not exceed 3 months.

A Master Repurchase Agreement must be signed with the bank or broker/dealer who is selling the securities to the City.

I. REVERSE-REPURCHASE AGREEMENTS. (Requires City Council approval for each transaction).

Reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met:

(A) The security to be sold on reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale.

(B) The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio.

(C) The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

(D) Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty by way of a reverse repurchase agreement or securities lending agreement, shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security shall only be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency.

(A) For purposes of this chapter, "significant banking relationship" means any of the following activities of a bank:

(i) Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, warrants, notes, or other evidence of indebtedness.

(ii) Financing of a local agency's activities.

(iii) Acceptance of a local agency's securities or funds as deposits.

J. MEDIUM-TERM CORPORATE NOTES, maximum 30% of portfolio **with a maximum remaining maturity of 5 years or less.**

Notes eligible for investment must be rated “A” or higher by an NRSRO.

K. TIME DEPOSITS-CERTIFICATES OF DEPOSIT (non-negotiable certificates of deposit). Maximum term of 3 years.

Deposits must be made with banks or savings & loan that have a short term rating of A1/P1 or a long-term rating of at least an “A” rating or higher by an NRSRO.

L. OBLIGATIONS OF THE STATE OF CALIFORNIA. Maximum term of 5 years.

Obligations must have an “A” rating or higher by an NRSRO.

M. MONEY MARKET FUNDS, maximum 15% of portfolio.

No more than 10 percent of the agency’s surplus funds may be invested in shares of beneficial interest of any one Money Market fund. Local agencies may invest in “shares of beneficial interest” issued by diversified management companies which invest only in direct obligations in U.S. Treasury bills, notes and bonds, U.S. Government Agencies and repurchase agreements with a weighted average of 60 days or less. They must have the highest rating from at least two NRSROs, must maintain a daily principal per share value of $1.00 per share and distribute interest monthly, and must have a minimum of $500 million in assets under management. The purchase price of the shares may not include commission.

N. THE LOCAL AGENCY INVESTMENT FUND (LAIF)

Is a special fund of the California State Treasury through which any local government may pool investments. The City may invest up to $65,000,000 in this fund. Investments in LAIF are highly liquid and may be converted to cash within 24 hours.

O. Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. The City may invest up to $20,000,000 per 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:

(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.

(3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

P. United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IDB), 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 "AA" or better by an NRSRO and shall not exceed 10 percent of the agency's moneys that may be invested pursuant to this section.

INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO	MINIMUM QUALITY REQUIREMENTS
Bankers' Acceptances	**180 days**	**25% (up to 40% with Council approval)**	**A1/P1, "A" Rating**
Negotiable Certificates of Deposit	**3 years (Up to 5 years with Council approval)**	**30%**	**A1/P1, "A" Rating**
Commercial Paper	**270 days**	**25%**	**A1, "A" Rating**
State Obligations-- CA And Others	**5 years**	**None**	**"A" Rating**
City/Local Agency of CA Obligations	**5 years**	**None**	**"A" Rating**
U.S. Treasury Obligations	**5 years**	**None**	**None**
U.S. Government Agency Obligations	**5 years**	**None**	**None**
IBRD, IFC, IDB	**5 years**	**10%**	**"AA" Rating**
Repurchase Agreements	**3 Months**	**None**	**None**
Reverse Repurchase Agreements	**92 days**	**20% of the base value of portfolio/Requires City Council Approval**	**None**
Medium-Term Corporate Notes	**5 years**	**30%**	**"A" Rating**
Non-negotiable Certificates of Deposit	**3 years**	**None**	**A1/P1, "A" Rating**
Money Market Mutual Funds	**60 days**	**15%**	**"AAA" Rating**
Local Agency Investment Fund (LAIF)	**N/A**	**Up to $65,000,000**	**None**

10.1 Investment Pools/Money Market funds:

The City Treasurer or designee shall be required to investigate all local government investment pools and money market mutual funds prior to investing and performing at least a quarterly review thereafter while the City is invested in the pool or the money market fund. LAIF is authorized under provisions in Section 16429.1 of the California Government Code as an allowable investment for local agencies even though some of the individual investments of the pool are not allowed as a direct investment by a local agency.

11.0 Portfolio Adjustments:

Should any investment listed in section 10.0 exceed a percentage-of-portfolio limitation due to an incident such as fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses. When no loss is indicated, the Treasurer shall consider reconstructing the portfolio basing his/her decision on the expected length of time the portfolio will be unbalanced. The City Treasurer will review the portfolio for such compliance no less than quarterly.

12.0 Collateralization:

Under provisions of the California Government Code, California banks, and other depository institutions are required to secure the City's deposits by pledging government securities with a value of 110 % of principal and accrued interest. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of City's total deposits. Collateral will always be held by an independent third party. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day. The City Treasurer, at his/her discretion, may waive the collateral requirement for deposits that are fully insured (current limit is $250,000) by the Federal Deposit Insurance Corporation. The right of collateral substitution is granted. The City Treasurer or designee shall ensure that all demand deposits that exceed the FDIC limit (currently $250,000) shall be fully collateralized with securities authorized under state law and this Investment Policy.

13.0 Safekeeping and Custody:

All City investments shall have the City of Huntington Beach as its registered owner, and all interest and principal payments and withdrawals shall indicate the City of Huntington Beach as the payee. All securities will be held with a qualified financial institution, contracted by the City as a third party custodian with a separate custodial agreement (does not apply to insured Certificates of Deposit, money market funds, or the Local Agency Investment Fund). All agreements and statements will be subject to review annually by external auditors in conjunction with their audit. All securities shall be acquired by the safekeeping institution on a "Delivery-Vs-Payment" (**DVP**) basis. For Repurchase Agreements, the purchase may be delivered by book entry, physical delivery or by third-party custodial agreement consistent with the Government Code. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery. The City Treasurer or designee shall require a Broker Trade confirmation for all trades.

14.0 Diversification:

The City's investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks associated with concentrating investments in specific security types, maturity segment, or in individual financial institutions. With the exception of U.S. Treasury securities, U.S. Government Sponsored Agencies and authorized pools no more than 50% of the investment portfolio will be invested in a single security type or with a single financial institution. In addition, no more than 10% of the investment portfolio shall be in securities of any one issuer except for U.S. Treasuries and U.S. Government Sponsored Agency issues. Investments may be further limited by specific language relating to each type as state in Section 10.0 of the Policy.

A. **Credit risk,** defined as the risk of loss due to failure of the insurer of a security, shall be mitigated by investing in those securities with an "A" or above rating and approved in the investment policy and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the City's cash flow.

B. **Market risk,** defined as the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by structuring the portfolio so that securities mature at the same time that major cash outflows occur, thus eliminating the need to sell securities prior to their maturity. It is explicitly recognized herein, however, that in a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of overall investment return. The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

15.0 Maximum Maturities:

To the extent possible, the City of Huntington Beach will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five (5) years from the date of purchase, unless the legislative body has granted express authority to make that investment either specifically, or as a part of an investment program approved by the City Council. The City of Huntington Beach shall not permit more than 50% of its investment portfolio to be invested in securities with maturities over four years.

16.0 Internal Control:

The City Treasurer shall establish a system of internal controls designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, or unanticipated market changes. No investment personnel may engage in an investment transaction except as provided for under the terms of this policy and the procedure established by the City Treasurer. The external auditors shall annually review the investments with respect to the investment policy. This review will provide internal control by assuring compliance with policies and procedures for the investments that are selected for testing. Additionally, account reconciliation and verification of general ledger balances relating to the purchasing or maturing of investments and allocation of interest on investments to fund balances shall be performed by the Finance Department and approved by the City Treasurer. To provide further protection of City funds, written procedures prohibit the wiring of any City funds without the authorization of at least two of the four designated City officials:

1. City Treasurer
2. Deputy City Treasurer
3. Director of Finance
4. Accounting Manager

17.0 Performance Standards:

This investment policy shall be reviewed at least annually by the Investment Advisory Board and the City Council to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return, and its relevance to current law and financial and economic trends. All financial assets of all other funds shall be administered in accordance with the provisions of this policy.

The moneys entrusted to the City Treasurer will be a passively managed portfolio. However, the City Treasurer will make best efforts to observe, review, and react to changing conditions that affect the portfolio.

17.1 Market Yield (Benchmark):

The investment portfolio shall be managed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow. Investment return becomes a consideration only after the basic requirements of investment safety and liquidity have been met. Because the investment portfolio is designed to operate on primarily a 'hold-to-maturity' premise, and because of the safety, liquidity, and yield priorities, the performance benchmark that will be used by the Treasurer to determine whether market yields are being achieved shall be the 12-month moving average of the 2-Year Constant Maturity Treasury (CMT) rate, which is published daily on the U.S. Department of the Treasury website. However, since return on investment is the least important objective of the investment portfolio, the benchmark will be used only as a reference tool. The reporting of a benchmark does not imply that the City Treasurer will add additional risk to the investment portfolio in order to attain or exceed the benchmark. While the City will not make investments for the purpose of trading or speculation as the dominant criterion, the City Treasurer shall seek to enhance total portfolio return by means of ongoing portfolio and cash management. The prohibition of highly speculative investments precludes pursuit of gain or profit through unusual risk and precludes investments primarily directed at gains or profits from conjectural fluctuations in market prices. The City Treasurer will not directly pursue any investments that are leveraged or deemed derivative in nature. However, as long as the original investments can be justified by their ordinary earning power, trading in response to changes in market value can be used as part of ongoing portfolio management.

18.0 Reporting:

The City Treasurer shall submit a quarterly report to the City Council, City Administrator, Director of Finance and the Investment Advisory Board within 30 days following the end of the quarter. This report will include the following elements pursuant to State law and Government Accounting Standard Board (GASB) #40:

18.1 Type of investment

18.2. Institution/Issuer

18.3 Purchase Date

18.4 Date of maturity

18.5 Amount of deposit or cost of the investment

18.6 Face value of the investment

18.7 Current market value of securities and source of valuation

18.8 Rate of interest

18.9 Interest earnings

18.10 Statement relating the report to its compliance with the Statement of Investment Policy or the manner in which the portfolio is not in compliance

18.11 Statement on availability of funds to meet the next six month’s obligations

18.12 Monthly and Year to date City Treasurer Budget Amounts for Interest Income

18.13 Percentage of Portfolio by Investment Type

18.14 Days to Maturity for all Investments

18.15 Comparative report on Monthly Investment Balances & Interest Yields

18.16 Monthly transactions

This quarterly report shall be placed on the City Council Agenda for Council and public review. In addition, a commentary on capital markets and economic conditions may be included with the report. The City Treasurer shall submit a monthly report listing the financial transactions. The monthly report may also contain additional information.

19.0 Investment Policy Adoption:

By virtue of a resolution of the City Council of the City of Huntington Beach, the Council shall acknowledge the receipt and filing of this annual statement of investment policy for the respective fiscal year.

GLOSSARY

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered. (The price at which a firm will sell a security to an investor.)

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. The drafts are drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. An acceptance is a high grade negotiable instrument.

BASIS POINT: One one-hundredth of a percent (i.e. 0.01%)

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

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

BROKER: A broker brings buyers and sellers together for a commission. He/she does not take a position.

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.

COMMERCIAL PAPER: Short term unsecured promissory note issued by a corporation (including limited liability companies) to raise working capital. These negotiable instruments are purchased at a discount to par value or at par value with interest bearing. Commercial paper is issued by corporations such as General Motors Acceptance Corporation, IBM, Bank of America, etc.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City. It includes combined statements for each individual fund and account group 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/her own account.

DEBENTURE: An unsecured bond backed only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt 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 is considered to be at a discount.

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

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

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

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A Federal agency that insures bank deposits, currently up to $250,000 per deposit.

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

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

FEDERAL RESERVE SYSTEM: The central bank of the United States created by congress and consisting of a seven-member Board of Governors in Washington, D.C.; 12 regional banks and approximately 38 percent of the 8,039 commercial banks in the

United States are members of the Federal Reserve System. National banks must be members; state-chartered banks may join if they meet certain requirements.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

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 presumable be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase-reverse agreements that establish 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"): Firms that review and assess the creditworthiness of an obligor as an entity or with respect to specific securities or money market instruments and express their opinion in the form of a letter rating. A credit rating agency may apply to the SEC for registration as a nationally recognized statistical rating organization ("NRSRO"). The primary rating agencies are Standard & Poor's Corporation, Moody's Investor Services, Inc. and Fitch, Inc.

NEGOTIABLE CERTIFICATES OF DEPOSIT: Unsecured obligations of the financial institution, bank or savings and loan, bought at par value with the promise to pay face value plus accrued interest at maturity. They are high-grade negotiable instruments, paying a higher interest rate than regular certificates of deposit.

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

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

PORTFOLIO: Collection of securities held by an investor.

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 PERSON RULE: An investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called "legal list". In other states, the trustee may invest in a security if it is one that would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

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 (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at 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 position. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

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.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, FHLMC, etc.) and Corporations, which have imbedded option (e.g. call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

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.

SEC RULE 15C3-1: See "Uniform Net Capital Rule".

SMALL BUSINESS ADMINISTRATION (SBA): The portion of these securities which are guaranteed by Federal government to provide financial assistance through direct loans and loan guarantees to small businesses. Cash flows from these instruments may not be in equal installments because of prepayments.

SUPRANATIONAL SECURITIES: United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IDB), 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 "AA" or better by an NRSRO and shall not exceed 10 percent of the agency's moneys that may be invested pursuant to this section.

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 BOND: Long-term U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: Intermediate-term coupon bearing U.S. Treasury having initial maturities of from one year to ten years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) Income Yield is obtained by dividing the current dollar income by the current market price for the security. (b) Net Yield or Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.