

**CITY OF OJAI**

**RESOLUTION NO. 20-35**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY  
OF OJAI APPROVING THE STATEMENT OF  
INVESTMENT POLICY**

**WHEREAS**, California Government Code Section 53646(a) (2) requires that local governments annual review and consider changes to their Statement of Investment Policy; and

**WHEREAS**, the City Council of the City of Ojai has reviewed and does hereby approve the new Statement of Investment Policy for the City of Ojai.

**NOW, THEREFORE, BE IT RESOLVED**, that the City Council of the City of Ojai does hereby approve the new Statement of Investment Policy, attached hereto as Exhibit "A" and made a part hereof.

**BE IT FURTHER RESOLVED**, that the Statement of Investment Policy shall be reviewed on an annual basis as required by the aforementioned California Government Code.

**PASSED, APPROVED and ADOPTED** this 9<sup>th</sup> day of June, 2020 by the following vote:


**AYES:** Blatz, Francina, Haney, Johnston, Weirick

**NOES:** None

**ABSENT:** None

**ABSTAIN:** None

CITY OF OJAI, CALIFORNIA

  
\_\_\_\_\_  
John F. Johnston, Mayor

6-19-2020  
Date signed

ATTEST:

  
\_\_\_\_\_  
Gail Davis, Deputy City Clerk

APPROVED AS TO FORM:

  
\_\_\_\_\_  
Matthew Summers, City Attorney

# **City of Ojai**

## **2020-21 Investment Policy**



**Adopted by City Council  
June 09, 2020  
Resolution No. 2020-\_\_\_**

**Investment Policy Certified by  
The California Municipal Treasurers Association  
May 24, 2017**

**Pamela Greer  
Finance Director/ Investment Officer**

**Alan Rains  
Treasurer**

**401 S. Ventura St.  
Ojai, CA 93023  
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### **1 - Policy**

The City of Ojai shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives of the Policy, in priority order of Safety, Liquidity and Return on investment. The Treasurer or Director of Finance shall submit an investment policy to City Council annually for approval of the policy and any amendments to the policy.

### **2 - Scope**

This investment policy applies to all investment activities and financial assets of the City of Ojai. The funds covered by this policy are accounted for and incorporated in the City of Ojai general purpose financial statements and include:

- a. General Fund
- b. Special Revenue Funds
- c. Debt Service Funds (Currently no debt service)
- d. Capital Project Funds
- e. Enterprise Funds

### **3 - Prudence** – Reference: CA Govt. Code 53600.3, 53646 and 27000.3

The standard of prudence to be used by the designated representative shall be the “prudent investor” standard and shall be applied in the context of managing the overall portfolio. Persons authorized to make investment decisions on behalf of local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard which states, “When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency”.

### **4 - Objective**– Reference: CA Govt. Code 53600.5

The primary objectives, in priority order, of the City of Ojai’s investment activities shall be:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the *City of Ojai* shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the *City of Ojai* will diversify its investments by investing funds among a variety of securities with independent returns or in funds which hold diversified investments.
2. **Liquidity:** The *City of Ojai’s* investment portfolio will remain sufficiently liquid to enable the *City of Ojai* to meet all operating requirements which might be reasonably anticipated.
3. **Return on Investments:** The *City of Ojai’s* investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. These measurements should be commensurate with the *City of Ojai’s* investment risk constraints identified in the Investment Policy and the cash flow characteristics of the portfolio. The Investment Officer will select an appropriate benchmark fund to compare the City’s investment performance against.

### **5 - Delegation of Authority**– Reference: CA Govt. Code 41006 and 53607

The City Council, as permitted under California Government Code 53607 delegates the responsibility to invest or reinvest the funds of the City of Ojai or to sell or exchange securities so purchased, to the City

Treasurer who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate investment officers.

The City Treasurer may authorize the Director of Finance to act as the City's Investment Officer in performing the treasury functions and duties under this policy. When acting as the City's Investment Officer as provided in this paragraph, the Director of Finance shall be subject to the same limitations, obligations, and requirements as the Treasurer.

The Treasurer shall establish written investment procedures for the operation of the investment program consistent with this policy. The procedure should describe custody/safekeeping agreements, repurchase agreements, wire transfer agreements, banking services agreements, cash flow forecasting 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 Treasurer.

The Investment Officer shall coordinate with the City Treasurer to develop a master investment plan for the City, including a percentage of pooled cash allocated for investments, the layering of investments, and the composition of the investment types in the City's investment portfolio. The Investment Officer shall discuss changes to the City's master investment plan with the City Treasurer prior to purchasing investments that vary from the plan. The City's investment portfolio shall be reviewed by the Investment Oversight Committee as discussed in **Section 18** of this policy.

#### **6 - Ethics and Conflicts of Interest**

Investment Officers shall refrain from personal business activity that could conflict with proper execution and management of the policy and the investment program, or which could impair their ability to make impartial decisions. Investment Officers must file an annual Statement of Economic Interest Form 700 with the city clerk's office prior to April 1 of each year or when material interest in financial institutions or personal investment positions require it. Furthermore, Investment Officers must refrain from undertaking personal investment transactions with the same individual(s) employed by the financial institution with whom business is conducted on behalf of the City.

#### **7 - Providers of Financial Services - Reference: CA Govt. Code 53601.5**

The Investment Officer shall maintain a list of financial institutions formally authorized to provide investment services. The City shall enter into formal contracts for banking services, safekeeping services and investment advisory services. No public deposit shall be made except in a qualified public depository as established by state laws. All financial institutions and broker/dealers who desire to conduct investment transactions with the City must supply the Investment Officer with the following:

- Audited financial statements,
- Proof of NASD certification,
- Proof of State of California registration,
- Completed broker/dealer questionnaire, and Certification of having read the Public Agency's investment policy and depository contracts.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Investment Officer (Treasurer/ Director of Finance). A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the *City of Ojai* invests.

#### **7.1 - Authorized Broker/Dealers**

The Investment Officer shall formally authorize investment broker-dealers to provide investment services to the City. Investment brokers-dealers may be primary dealers or regional brokers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule) with branch offices in the State of California performing the transactions with the City. Broker-dealers must complete a broker-dealer statement of qualifications before being approved by the Investment Officer and execute a certification that the broker-dealer’s employees and supervisory personnel have read and understand the City’s investment policy. The Investment Officer may conduct periodic reviews of the approved list of investment broker-dealers.

**7.2 - Safekeeping and Custody** The Investment Officer shall select one or more financial institutions to provide safekeeping and custodial services for the City in accordance with the provisions of Section 53608 of the California Government Code. The purchase and sale of negotiable securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. Negotiable securities purchased by the City will be delivered by book entry and will be held in third-party safekeeping by a City approved custodian bank, its correspondent bank or its Depository Trust Company (DTC) participant account. Non-negotiable investments such as money market funds, mutual funds, collateralized bank deposits, county investment pools, joint powers authority agreements, and LAIF will be in the name of City with statements and/or receipts evidencing investment.

**8 - Authorized and Suitable Investments – Reference: CA Govt. Code 53601 and 53601.6**

The Investment Officer must take special care to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle.

City Council has limited investments to **only** the following types of securities:

Authorized Investment	Govt. Code	Maximum Percentage	Maximum Maturity	Minimum Quality <sup>1</sup>	Other Constraints
U.S. Treasury Obligations	53601(b)	• No Limit	5 Years	None	Notes, Bonds, Bills
U.S. Agency Obligations	53601(f)	• No Limit	5 Years	None	Federal agency or U.S. government sponsored enterprise obligations, participations, or other instruments.
State of California Obligations	53601(d) and (d)	• 20% of Portfolio	5 Years	Underlying A, A-1	Bonds, notes, warrants or other evidences of indebtedness of any local agency within California
California Local Agency Bonds	53601(e)	• 20% of Portfolio	5 Years	Underlying A, A-1	Bonds, notes, warrants or other evidences of indebtedness of any local agency within California
Negotiable Certificates of Deposit	53601(i)	• 10% of portfolio • 5% single issuer	5 Years	A	<ul style="list-style-type: none"> <li>• Issued by nationally or state chartered banks; savings or federal associations; state or federal credit unions; or federally licensed or state licensed branches of foreign banks. and</li> <li>• Per 53638 deposits may not exceed bank shareholder equity; total net worth of depository savings or federal association; unimpaired capital and surplus of a credit union; unimpaired capital and surplus of industrial loan companies.</li> </ul>

Authorized Investment	Govt. Code	Maximum Percentage	Maximum Maturity	Minimum Quality <sup>1</sup>	Other Constraints
Bank Deposits – Collateralized or FDIC Insured	53630 et seq.	No Limit	N/A	Satisfactory rating from national bank rating service and from CRA review.	<ul style="list-style-type: none"> <li>• Amounts up to \$250,000 per institution are insured by the FDIC;</li> <li>• Amounts over the insurance limit must be placed with financial institutions participating in the California Local Agency Security Program, providing for collateralization of public funds.</li> <li>• Per 53638 deposits may not exceed bank shareholder equity; total net worth of depository savings or federal association; unimpaired capital and surplus of a credit union; unimpaired capital and surplus of industrial loan companies.</li> <li>• Treasurer may waive collateral for the portion of any deposits insured pursuant to federal law.</li> <li>• The use of private sector entities authorized by 53601.8 to assist in the placement of deposits are NOT permitted.</li> </ul>
Bank or Credit Union Certificated of Deposits – FDIC Insured or NCUA Insured	53630 et seq.	80% of Portfolio	5 Years	N/A	<ul style="list-style-type: none"> <li>• Issued by nationally or state chartered banks or federally licensed or state licensed branches of foreign banks which are FDIC insured. and</li> <li>• Purchases limited to \$5,000 below the FDIC or NCUA Limit per institution</li> <li>• Amounts up to \$250,000 per institution are currently insured by the FDIC and NCUA;</li> </ul>
Local Agency Investment Fund (“LAIF”)	16429.1 et seq.	As permitted by LAIF	N/A	N/A	
Joint Powers Authority Pools	53601(p)	<ul style="list-style-type: none"> <li>• 60% of portfolio</li> </ul>	N/A	N/A	<p>JPA must be</p> <ul style="list-style-type: none"> <li>• organized pursuant to Section 6509.7;</li> <li>• invest in securities in 53601 subdivisions (a) to (q); and</li> <li>• investment advisor is registered or exempt from registration with the SEC, with at least 5 years of experience, and has assets under management in excess of \$500 million.</li> </ul>
County Pooled Investment Funds	53684	<ul style="list-style-type: none"> <li>• 20% of Portfolio</li> </ul>	N/A	N/A	
Money Market Funds	53601(l)	<ul style="list-style-type: none"> <li>• 15% of portfolio</li> </ul>	N/A	Fund must either have the highest ranking by not less than 2 NRSROs	Retain an investment adviser registered or exempt from registration with the SEC with 5 years’ experience managing money market funds in excess of \$500 million

<sup>1</sup> Standard and Poor’s rating system is used for minimum quality requirements. An equivalent rating from another nationally recognized rating organization is acceptable. Appendix A. provides a comparison of the different credit ratings.

**9 - Ineligible Investments**

Investments not described above as authorized investments are **ineligible** for purchase. The policy specifically prohibits the investment of any funds in common stock, financial futures, options, inverse floaters, range notes, or mortgage-derived, interest-only strips. Government Code Section 53601.6 also prevents the investment in any security that could result in zero interest accrual if held to maturity. The limitation in this Section does not apply to investments in shares of beneficial interest issued by diversified



management companies registered under the Investment Company Act of 1940 that are authorized pursuant to Government Code Section 53601(l). On April 10, 2018, City Council adopted Resolution 18-10 which states that the City shall refrain from any new direct investments in businesses, funds or financial services institutions that knowingly engage in work related to the production, transportation, storage, processing, use or disposal of nuclear weapons or the components of nuclear weapons with no non-military applications.

**10 - Collateralization - Reference: CA Govt. Code 53601**

Collateralization will be required on two types of investments: certificates of deposit amounts exceeding the FDIC insurance limits and repurchase (and reverse repurchase) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value for Certificate of Deposits and 102% for reverse repurchase agreements of principal and accrued interest.

Uninsured bank deposits may only be invested with financial institutions which participate in the California Local Agency Security Program (LASP) administered by the California Department of Financial Institutions. LASP provides for collateral requirements, oversight and monitoring, and reporting by financial institutions.

Collateral is also required for repurchase agreements. The market value of securities that underlie a repurchase agreement shall not be allowed to fall below 102% of the value of the repurchase agreement and the value shall be adjusted no less than quarterly. Securities that can be pledged for collateral shall consist only of securities permitted in this policy.

**11 - Review of Investment Portfolio –**

The securities held by the *City of Ojai* must be in compliance with Section 8.0 Authorized and Suitable Investments at the time of purchase. Because some securities may not comply with Section 8.0 Authorized and Suitable Investments subsequent to the date of purchase, the (*Designated Official – i.e. Treasurer*) shall at least annually review the portfolio to identify those securities that do not comply. The (*Designated Official – i.e. Treasurer*) shall establish procedures to report to the (Agency/District's board/council) and to its oversight committee, should one exist, major and critical incidences of noncompliance identified through the review of the portfolio.

**12 - Investment Pools / Mutual Funds**

Investment pools include LAIF, county pooled investment funds, and shares of beneficial interest (mutual funds and money market funds), and joint powers authority pools. A thorough investigation of any pool or fund is required prior to the City's investment and on a periodic basis while funds are invested. The investigation will include review of the following items: • Eligible investments; • Investment policy and/or investment objectives; • Interest calculation, distribution, and treatment of gains/losses; • Schedule for receiving statements and portfolio listings; • Fees.

**13 - Safekeeping and Custody – Reference: CA Govt. Code 53608**

All security transactions, including collateral for repurchase agreements, entered into by the City of Ojai shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Investment Officer and evidenced by safekeeping receipts.

**14 - Diversification**

The Investment Officer shall diversify the investment portfolio by security type, institution and maturity. The restriction on concentration in a single security type or institution is detailed in Section 8.

#### **15 - Maximum Maturities**

Individual investments within the investment portfolio are limited to a maximum of five years except where further limited by State Law and/or this policy. The City is a “buy and hold” investor whereby securities are purchased with the intent of being held until maturity. Maturities will be matched with the City’s cash flow requirements. After cash flow requirements are met, investment considerations will include seeking additional yield that may be available in the market.

#### **16 - Internal Controls**

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Ojai are protected from loss, theft, fraud or misuse.

Annually, the City’s independent auditor will conduct an independent review of investment records and verify the investments have been made in accordance with this policy.

#### **17 - Performance Standards**

The investment portfolio shall be managed to obtain a reasonable rate of return while preserving capital and meeting cash flow needs. The City’s investment strategy is passive with investments generally held to call or maturity. Given this strategy and the policy objectives, the basis used to determine whether market yields are being achieved shall be the average daily yield for the preceding quarter of three month Treasury bills for the liquid portion of the portfolio and the two- year U.S. Treasury note for the short-term portion of the portfolio. Additional benchmarks may be used as they are deemed relevant and appropriate.

#### **18 - Investment Oversight Committee**

The City’s Finance and Budget Committee will serve as the Investment Oversight Committee and act as an advisory committee to the City Council. The committee shall consist of one City Council member, the City Manager, the City Treasurer, the Director of Finance, and one public member who is a resident of the City of Ojai. The public member shall be appointed by City Council for a term not to exceed four years; however, public members may request an appointment for additional terms. Applicants shall apply for this position and will be selected in the same manner as the City’s various commissions. The committee meets at least annually.

The purpose of the Investment Oversight Committee is to:

1. Review the investment practices used by the Investment Officer for compliance with the investment policy.
2. Analyze the monthly Treasurer’s reports for adherence to established guidelines.
3. Advise the City Council of any deviation from guidelines established by this policy or any other practices that are deemed imprudent for a public agency.
4. The committee reviews the Investment Policy and proposes modifications and amendments to the policy.

#### **19 - Reporting – Reference: CA Govt. Code 53607 and 53646(b)**

Within 30 days of the end of each month, the Treasurer shall submit the monthly investment report to the City Manager and City Council. The monthly reports are presented to the Investment Oversight Committee at its meetings.

The report shall list each investment by investment category and include: (1) purchase and maturity dates, (2) yield, (3) original cost, (4) par value, and (5) market value. In addition, the report will provide a weighted average yield of the portfolio, the weighted average maturity of the portfolio and the monthly investment transactions.

**20 - Investment Policy Adoption** – Reference: CA Govt. Code 53646

The investment policy shall be reviewed at least annually by the Treasurer and the Investment Oversight Committee to ensure its consistency with the City's overall objectives and its compliance with California Government Code and best practices. Any changes proposed must be approved by City Council. The investment policy shall be submitted to City Council for consideration and adoption at a public meeting on an annual basis whether or not modifications are necessary.

**21 - Glossary:**

Because this policy is to be available to the public as well as the governing body, it is important that a glossary of related terminology be part of the policy.

**AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.

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

**BANKERS' ACCEPTANCE (BA):** A draft or bill of 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. (When you are selling securities, you ask for a bid.) See Offer.

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

**CALTRUST:** See Investment Trust of California below.

**CALIFORNIA ASSET MANAGEMENT PROGRAM (CAMP):** A California Joint Powers Authority ("JPA") established in 1989 to provide California public agencies with professional investment services. The Pool is a permitted investment for all local agencies under California government code section 53601 (P).

**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.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The official annual report of the *(entity)*. It includes five 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 own account.

**DEBENTURE:** A bond secured 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 also is considered to be at a discount.

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

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

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

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits, currently up to \$250,000 per entity.

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

**FEDERAL HOME LOAN BANKS (FHLB):** Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA):** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

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

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

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

**INVESTMENT TRUST OF CALIFORNIA (CalTRUST):** CalTRUST is a voluntary pooled investment program for California local governments and special districts authorized by Section 53601(p) of the California Government Code. CalTRUST is administered by the CalTRUST Joint Powers Authority, created pursuant to the provisions of California Government Code Section 6509.7, and whose Board of Trustees consists of local agency treasurers and finance directors. Wells Capital Management serves as the Investment Advisor to each of the CalTRUST funds. Each of the three CalTRUST funds, the CalTRUST Heritage Money Market Fund, the CalTRUST Short-Term Fund and the CalTRUST Medium-Term Fund complies with all of the restrictions and limitations placed on local agency investments by California Government Code Sections 53601 and 53635. The CalTRUST Heritage Money Market Fund provides same-day liquidity, while the CalTRUST Short-Term Fund provides next-day liquidity. The CalTRUST Medium-Term Fund provides monthly liquidity. There are no minimum or maximum transaction limits with the CalTRUST funds. All investment earnings are distributed to participating agencies on a proportionate basis.

**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.

**LOCAL AGENCY INVESTMENT FUND (LAIF):** The Local Agency Investment Fund is a voluntary investment alternative for California's local governments and special districts authorized by the California Government Code. The LAIF is managed by the State Treasurer's Office with oversight by the Local Agency

Investment Advisory Board. All securities in LAIF are purchased under the authority of Government Code Sections 16430 and 16480.8.

**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—reverse repurchase agreements 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.

**NEGOTIABLE CERTIFICATES OF DEPOSIT (NCD):** Negotiable Certificates of Deposit are unsecured obligations of the financial institution, bought at par value with promise to pay face value plus accrued interest at maturity. They are high-grade negotiable instruments, paying a higher interest rate than regular CD's.

**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 which 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 (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 (SEC):** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SEC RULE 15(C)3-1:** See Uniform Net Capital Rule.

**STRUCTURED NOTES:** Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (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.

**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.

**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.