

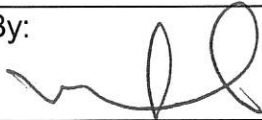
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POLICY AND PROCEDURE

Subject: Investment Policy	Index: Treasurer
	Number: 202-1
Effective Date: February 20, 2024	Prepared By: Finance and Administrative Services/City Treasurer
Supersedes: December 5, 2023	Approved By: 

1.0 **PURPOSE:** The purpose of the City's Investment Policy is to provide comprehensive guidelines for the responsible management of the City's funds that are available for investment. These may include, but are not limited to, temporarily idle cash, reserve funds, trust, agency, and capital funds.

2.0 **ORGANIZATIONS AFFECTED:**
All departments/divisions

3.0 **REFERENCES:**
 3.1 Civil Code Section 2261, et seq.
 3.2 Government Code Section 53600, et seq.
 3.3 Code of Ethics Policy, Administrative Policy #102-1

4.0 **POLICY:** It is the policy of the City of San Clemente ("the City") to invest public funds in a manner which will provide the maximum security of principal consistent with a market rate of return while meeting the cash flow needs of the City and conforming to all applicable State and City statutes governing the investment of public funds, as referenced in section 3.0. Every effort will be made to match investment maturities to cash flow needs.

4.1 **SCOPE:** This investment policy applies to all financial assets of the City. These funds are accounted for in the City of San Clemente's Comprehensive Annual Financial Report and include:

- 4.1.1 **FUNDS:**
- 4.1.1.1 General Funds
 - 4.1.1.2 Special Revenue Funds
 - 4.1.1.3 Capital Project Funds
 - 4.1.1.4 Enterprise Funds
 - 4.1.1.5 Internal Services Funds
 - 4.1.1.6 Trust and Agency Funds

- 4.1.1.7 Debt Service Funds
- 4.1.1.8 Redevelopment Agency Funds
- 4.1.1.9 Any new fund created by the City Council

4.1.2 **BOND PROCEEDS:** The investment of bond proceeds will be made in accordance with applicable bond indentures.

4.2 **OBJECTIVE:** The primary objectives, in priority order, of the City of Clemente's investment activities shall be:

4.2.1 **Safety:** Safety of principal is the foremost objective of the City. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

4.2.1.1 **Credit Risk:** Credit Risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:

4.2.1.1.1 Limiting investments authorized by this Policy by maturity and credit ratings.

4.2.1.1.2 Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business; and

4.2.1.1.3 Diversifying the investment portfolio so that potential losses on portfolio securities will be minimized.

4.2.2.1 **Interest Rate Risk:** Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by:

4.2.2.1.1 Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and

4.2.2.1.2 By investing operating funds primarily in shorter-term securities.

4.2.2 **Liquidity:** The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

4.2.3 **Return on investment:** The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the

City's investment risk constraints and the cash flow characteristics of the portfolio.

- 4.3 **Prudence:** Pursuant to California Government Code, Section 53600.3, all persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the Prudent Investor Standard:

“...all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

- 4.4 **Delegation of Authority:** The City Council, by adoption of this Investment Policy, delegates investment authority to the City Treasurer. In accordance with Government Code Section 53607, investment authority may be delegated for a one-year period by the City Council. In accordance with Government Code Section 53607, investment authority may be revoked by the City Council before that one year period is over.

4.4.1 **External Investment Advisor:** The City Treasurer may review and evaluate the services of registered external investment advisors to manage all or a part of the City's investment portfolio. Investment advisors shall make all investment decisions in accordance with State law and the City's investment policy. Selection of broker/dealers used by an external investment advisor retained by the City will be at the discretion of the investment advisor, unless the City Council, under advisement of the Investment Advisory Committee determines one or more of the broker/dealers being used to be unsuitable for any reason.

4.4.1.1 **Selection of External Investment Advisor:** The Investment Advisory Committee shall, after review of external investment advisors qualifications, recommend to the City Council the selection of one or more firms to manage City investments, or recommend the replacement of an existing firm.

4.4.2 The City Treasurer, with approval by the Finance & Administrative Services Director, shall develop and maintain written administrative procedures for the operation of the investment program which are consistent with this Investment Policy. Procedures will include

reference to safekeeping, Public Securities Association (PSA) Master Repurchase Agreements, wire transfer agreements, collateral and deposit agreements, banking service contracts, broker/dealer questionnaire and certification, and other investment related activities.

4.4.3 No person may engage in an investment transaction except as provided under terms of this Policy and the procedures established herein.

4.4.4 The City Treasurer with approval by the Finance & Administrative Services Director shall establish a system of controls to regulate the investment activities of subordinate officials.

4.4.5 The Finance & Administrative Services Director or his/her designee, is designated as the acting investment officer of the City when the primary investment officer is unavailable.

4.5 **Ethics and Conflicts of Interest:** 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.

4.5.1 Officers and employees involved in the investment process shall abide by the City's adopted Code of Ethics policy, which by reference is incorporated into this Policy.

4.6 **Authorized Securities Dealers:** The City Treasurer will maintain a list of securities dealers ("Securities Dealers"), as approved either by the Investment Advisory Committee, or subject to the Automatic Inclusion Criteria.

A Securities Dealer must either: (i) complete a Broker / Dealer Questionnaire and Certification at relationship initiation and provide annual confirmation of no material change in financial condition or broker's standing, or (ii) be subject to the Automatic Inclusion Criteria. For a Securities Dealer subject to the Automatic Inclusion Criteria, the following must be ascertained annually: (i) an audited annual report ("Form 10-K"), and (ii) a review of the designated broker as provided by FINRA.

4.5.2 **Annual Review:** An annual review of the financial condition and registrations of the Securities Dealers with whom the City does business which will be conducted by the City's Investment Advisory Committee.

The review of Audited Financial Statement(s) will ensure (1.) that the statements contain an “unqualified opinion” and (2.) that there are no noted going concern issues.

4.5.3 **Audited Financial Statement:** A current audited financial statement is required to be on file in the City Clerk’s Office for each financial institution and Securities Dealer with whom the City does business, including external money managers, banks, custodians of securities and broker/dealers.

4.5.4 **Counterparty Risk:** Financial institutions with whom the city does business should be well capitalized and credit worthy to minimize Counterparty Risk. For avoidance of doubt, the City takes on no specific Counterparty Risk given its delivery vs. payment investment policy.

4.6 **Authorized and Suitable Investments:**

4.6.1 *Authorized Investments:* In accordance with State law, investments may be made in the following media (California Government Code Section 16429.1, 53600-53609 and 53630- - Exhibit attached): The City seeks to further restrict eligible investments to the guidelines listed below. In the event an apparent discrepancy is found between this Policy and the Government Code, the most restrictive parameters will take precedence. Percentage holding limits and credit rating minimums listed in this section apply at the time the security is purchased.

Any investment currently held at the time the Policy is adopted which does not meet the new Policy guidelines can be held until maturity, and shall be exempt from the new Policy. At the time of the investment’s maturity or liquidation such funds shall be reinvested only as provided in the most current Policy.

4.6.1.1 U.S. Treasury Securities or

4.6.1.2 Federal Agency Securities

4.7.1.1.1 Federal Home Loan Bank (FHLB)

4.7.1.1.2 Federal National Mortgage Association (FNMA)

4.7.1.1.3 Federal Home Loan Mortgage Corporation (FHLMC)

4.7.1.1.4 Federal Farm Credit Bank (FFCB)

4.7.1.1.5 Tennessee Valley Authority (TVA)

4.6.1.3 Collateralized or insured Passbook Savings Accounts & Demand Deposits.

4.6.1.4 Collateralized or insured Certificates of Deposits

(or Time Deposits) placed with commercial banks and/or savings and loan companies.

4.6.1.5 Bankers Acceptances with banks whose short term obligations are rated A-1/P-1 or higher, or the equivalent, by at least one nationally recognized statistical rating organization (NRSRO). Banks may not be on “negative credit watch” by any NRSRO. Maturities may not exceed 180 days.

4.6.1.6 Commercial Paper purchases may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of an issuing corporation. Investments in any single issuer shall not exceed 5% of the total portfolio market issued by institutions whose short term obligations are rated “A-1/P-1” or higher, or the equivalent, by at least one NRSRO; and whose long-term obligations, if any, are rated “A2/A” or higher by at least one NRSRO. They must be issued by a corporation organized and operating within the United States with more than \$500 million in total assets; or issued by an issuer organized within the United States as a special purpose corporation, trust, or limited liability company with programwide credit enhancement including, but not limited to, overcollateralization, letters of credit, or a surety bond.

4.6.1.7 Corporate Debentures (including Medium Term Notes issued by corporations organized and operating in the U.S.). Investments in any single issuer, when combined with any investments in negotiable certificates of deposit, shall not exceed 3% of the total portfolio market value. Corporate issues purchased by an investment advisor hired by the City for their credit evaluation process must be rated at least in the “A” category or equivalent by at least one NRSRO at the time of purchase. Corporate issues purchased by the Treasurer must be rated as follows:

4.6.1.7.1 For maturities of three years or less in the “A2/A” category or higher at time of purchase.

4.6.1.7.2 For maturities of greater than three years

to five years in the "Aa3/AA-" category or higher at time of purchase.

4.6.1.8 Repurchase agreements whose underlying collateral consists of the foregoing, provided a signed PSA Master Repurchase Agreement is on file with the counterpart bank or broker/dealer. Direct investments in Reverse Repurchase agreements are prohibited.

4.6.1.9 Local Agency Investment Fund (State of California Pool). Money market mutual funds whose portfolio consists of investments listed in Section 4.7.1. Money market mutual funds must be AAA rated by at least 2 of the 3 largest rating agencies.

4.6.1.10 Asset-Backed Securities where the securities are rated "AA" or higher by a NRSRO. The maximum legal final maturity may not exceed five (5) years.

4.6.1.11 Negotiable Certificates of Deposit (NCDs issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state licensed branch of a foreign bank). Purchases of eligible NCDs in any single issuer, when combined with any investments in corporate debentures, shall not exceed 3% of the total portfolio market value. NCD issues purchased in an amount above the FDIC insured limit must be rated in the "A2/A" category or higher by at least one NRSRO; or have short term debt obligations rated "A-1/P-1" or higher, or the equivalent, by at least one NRSRO. The maturities of NCDs may not exceed 5 years, if the amount is within the FDIC insured limit. When purchased in the City's internally managed portfolio the issuer must have an IDC ranking of "Excellent" or higher at time of purchase.

4.6.1.12 Orange County Investment Pool (OCIP).

4.6.1.13 Supranational Securities, provided that the

securities are US-dollar denominated senior unsecured obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, and are rated in the "AA" category or higher by a NRSRO. No more than 5% of the portfolio may be invested in a single issuer.

4.6.2 **Bank Savings Accounts and Certificates of Deposit:** No funds will be invested in an institution which has at the time the deposit or investment is made, a regulatory capital rating of less than "adequately capitalized."

4.6.3 **Prohibited Investment Vehicles and Practices:**

4.6.3.1 State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.

4.6.3.2 In accordance with Government Code Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.

4.6.3.3 Investment in any security not issued or backed by the US government that could result in a zero interest accrual if held to maturity is prohibited.

4.6.3.4 Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.

4.6.3.5 Purchasing or selling securities on margin is prohibited.

4.6.3.6 The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.

4.6.3.7 The purchase of foreign currency denominated securities is prohibited.

4.6.4 **Pool Investments:** With the exception of Local Agency Investment Fund (LAIF), a thorough investigation of the pool fund is required prior to investing, and on an annual basis. This investigation will address and document the following items:

4.6.4.1 A description of eligible investment securities, and a

written statement of investment policy and objectives.

4.6.4.2 A description of interest calculations and how it is distributed, how gains and losses are treated, and the fees charged

4.6.5 **Credit Rating Downgrade:** In the event that an issue is later downgraded to a level below the quality required for purchase by this investment policy, the Treasurer will assess the risk exposure to the City and will make a decision regarding course of action and will advise the Investment Advisory Committee accordingly. If a security purchased by an external investment advisor is downgraded below the requirements of this policy, making the security ineligible for additional purchases, any actions taken by the external investment advisor will be communicated to the Treasurer in a timely manner. If a decision is made to retain the security, the credit situation will be monitored and reported to the Investment Advisory Committee.

4.7 **Safekeeping & Collateralization:**

4.7.1 **Repurchase Agreements:** Collateral is required for all repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be a minimum of 102% of market value of principal and accrued interest. Collateral will always be held by an independent third party with whom the City has a current custodial agreement. The independent third party custodian must be a major financial institution, with at least \$5 billion in assets plus a long term rating of A or better. The third party custodian shall be required to issue a safekeeping receipt to the City listing the specific instrument, rate, maturity and other pertinent information. The right of collateral substitution is granted for repurchase agreements.

Collateral securities shall be equal in quality and may only consist of Those securities listed as authorized investments in sections 4.7.1.1 Through 4.7.1.5.

4.7.2 **Certificates of Deposit:** Collateral of at least 110% or FDIC insurance is required for Certificates of Deposit.

4.7.3 **Passbook Savings and Demand Deposits:** Collateral or FDIC Insurance is required for Certificates of Deposit.

4.8 **Safekeeping & Custody:** All security transactions, including collateral for repurchase agreements, certificates of deposit, demand deposits, and time deposits entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party qualified custodian designated by the City and will be evidenced by safekeeping receipts. Certificates of Deposit will be held in the City's vault.

4.9 Diversification and Maturity Limitations:

4.9.1 **Diversification:** It is the policy of the City to diversify its investment portfolio. Invested funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and reviewed quarterly by the City Treasurer and Investment Advisory Committee.

4.9.1.1 **Portfolio Diversification:** The portfolio will maintain diversification by imposing the following limits, at time of purchase, on eligible investments:

U.S. Treasury	100%
U.S. Agency	75%
Collateralized or insured Passbook Savings & Demand Deposits	30%
Collateralized or insured Certificates of Deposits	30%
Negotiable Certificates of Deposits (NCDs)	20%
Bankers Acceptances	30%
Commercial Paper	15%
Corporate Debentures (including Medium Term Notes and Bank Notes)	20%
Repurchase Agreements	30%
Local Agency Investment Fund (LAIF) (but not to exceed \$ 75 million)	50%
Money Market Mutual Funds	20%
Asset-Backed Securities	10%
Supranational Securities	10%
Orange County Investment Pool	10%

No more than 30% of the total portfolio may be invested in any one Federal Agency issuer.

The combined exposure in callable U.S. Agency securities shall not exceed 20% of the total market value of the portfolio.

The combined investment exposure of any issuer in Corporate Debentures and Negotiable Certificates of Deposits (NCDs) shall not exceed 3% of the total portfolio market value. The combined investment exposure in Corporate Debentures and NCDs in excess of the FDIC limits, shall not exceed 20% of the total portfolio market value.

No more than 30% of the City's total investment portfolio

will be invested in a single security type or with a single financial institution or pool except:

- 4.9.1.1.1 US Treasury and Agency securities
- 4.9.1.1.2 The City may invest up to 60% in LAIF and OCIP combined, but not to exceed \$ 75 million in LAIF and \$15 million in OCIP.

No more than 5% of the City's portfolio may be invested in any issuer of securities other than where the issuer is the US Government or its Agencies, or where the security is a Money Market Mutual Fund or Local Agency Investment Fund (LAIF) or ***unless otherwise specified in this investment policy.***

4.9.1.2 **Maturity Diversification:** Every effort will be made to match investment maturities to cash flow needs. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk.

4.9.1.2.1 Unless matched to a specific requirement, no more than 50% of the investment portfolio may be invested with maturities greater than 2 years.

4.9.1.2.2 Unless matched to a specific requirement and approved by the City Council, no investment may be made with a maturity greater than 5 years.

4.10 **Marking to Market:** The City shall mark investments to market on a monthly basis.

4.11 **Investment Pools:** Prior to entering a pool, a pool questionnaire must be completed and kept on file in the City Treasurer's office.

5.0 **PROCEDURE:**

5.1 **Internal Control:** In conjunction with the City's independent annual financial audit, a review of actual and documented internal controls of the City's investment program will be conducted. The review will assure that internal controls are adequate and assure compliance with policies and procedures. The City's Investment Advisory Committee will be provided with access to a

copy of the annual audit within 30 days of publication. The City will email a link to the Investment Advisory Committee so that they can access the financial audit.

- 5.2 **Performance Standards:** The investment portfolio will be designed to obtain an average market rate of return, taking into account the City's investment risk constraints (safety), cash flow needs, and maturities of the investments.

- 5.2.1 **Market Rate of Return (Benchmark):** The City of San Clemente's investment strategy is active. The investment portfolio's return shall be measured using total return.

The investment portfolio shall be designed to attain a total return commensurate with the risk constraints outlined by the City's Investment Policy. The benchmark for the City's portfolio are:

- 5.2.1.1 BofA Merrill Lynch 1-3 Year US Treasury & Agency Index (primary)
- 5.2.1.2 BofA Merrill Lynch AAA-A Corporate & Government Index (reference)

It is understood that the portfolio's total return can and will differ from the index through different market cycles as the investment portfolio's priority is to meet the liquidity needs of the City. Nevertheless, it is the intent to use this benchmark as a tool with which to measure the relative risk and return of the portfolio.

- 5.3 **Competitive Bids:** A minimum of three bids or quotations will be obtained prior to the completion of secondary investment transactions with authorized financial institutions. This does not apply to authorized investment pools or money market mutual funds.

- 5.4 **Reporting:** The Finance & Administrative Services Director and City Treasurer are charged with the responsibility of distributing a Quarterly Investment Report on investment activity and returns in the City's Quarterly Financial Report. The report will be provided to the City's Investment Advisory Committee and City Council ***within 30 days following the end of the quarter covered by the report.*** The California Code requires the following components:

- 5.4.1 Investment type, issuer, date of maturity, par value and dollar amount invested in all securities, and investments and monies held by the City;
- 5.4.2 A description of the funds, investments and programs; and
- 5.4.3 A market value as of the date of the report (or the most recent valuation as to assets not valued monthly) and the source of this

valuation; and

5.4.4 Monthly transactions for the period; and

5.4.5 A statement of compliance with the investment policy or an explanation for non-compliance; and

5.4.6 A statement of the City's ability to meet expenditure requirements for six months, and an explanation of why money will not be available if that is the case.

5.5 **Investment Advisory Committee:** The City Treasurer shall automatically be a member and serve as Chair. The City Council shall appoint two citizen representatives and a Council representative. The City Treasurer shall appoint one industry specialist, who does not need to be a citizen of San Clemente.

5.5.1 **Members (Voting):**

5.5.1.1 City Treasurer (Chair)

5.5.1.2 Council member representative

5.5.1.3 Two citizen representatives

5.5.1.4 One Industry Specialist

Three (3) voting members will constitute a quorum.

5.5.2 **Staff (Non-Voting):**

5.5.2.1 Finance & Administrative Services Director or designee (Staff)

5.5.3 **Role:**

5.5.3.1 To review and recommend City investment policies

5.5.3.2 To review the investment portfolio and practices for performance and conformance to adopted policies and procedures.

5.5.4 **Meetings:**

6.5.4.1 The Investment Advisory Committee shall meet no less than quarterly.

5.5.5 **Reports:**

5.5.5.1 A quarterly report shall be submitted to the Committee by the City Treasurer, and be reviewed and approved by the Investment Advisory Committee.

- 5.6 **Investment Policy Adoption:** The City's investment policy shall be adopted by the City Council on an annual basis. The policy shall be reviewed on an annual basis by the City Treasurer, Assistant City Manager/Finance & Administrative Services Director and City's Investment Advisory Committee and any modifications made thereto must be recommended by the Committee and approved by the City Council.
- 5.7 **Investment Policy Distribution:** A copy of the City's adopted investment policy will be distributed to the Investment Advisory Committee, City Treasurer, Deputy Administration Services Director, brokers, financial auditors, primary bank, and City Attorney. A copy will be posted on the City's web site and be on file in the City Clerk's office.

6.0 **DEFINITIONS**

- 6.1 **ADEQUATELY CAPITALIZED:** Capital group assignments are made in accordance with section 327.3(e)(1)(1) of the FDIC's amended assessment regulation. Not Well Capitalized and Total Risk-Based Capital Ratio equal to or greater than 8 percent, and Tier I Risk-Based Capital Ratio equal to or greater than 4 percent, and Tier I Leverage Capital Ratio equal to or greater than 4 percent.
(See Well Capitalized and Undercapitalized).
- 6.2 **AGENCIES:** Federal agency securities.
- 6.3 **ASSET BACKED SECURITIES:** Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.
- 6.4 **AUTOMATIC INCLUSION CRITERIA:** means a Bank with a securities dealer subsidiary, classified as either a Systematically Important Financial Institution ("SIFI"), and/or a Globally Systemically Important Financial Institution ("G-SIFI").
- 6.5 **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.
- 6.6 **BROKER:** A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position or take ownership of the security. In the money market, brokers are active in markets in which banks buy and sell money and in inter-dealer markets.
- 6.7 **CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

- 6.8 **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.
- 6.9 **COLLATERALIZED MORTGAGE OBLIGATIONS (CMO):** Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.
- 6.10 **COMMERCIAL PAPER:** An unsecured promissory note with a fixed maturity of no more than 270 days. Commercial paper is normally sold at a discount from face value.
- 6.11 **COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The official annual report for the City of San Clemente. It includes five combined statements and basic financial 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.
- 6.12 **COUNTERPARTY:** One of the counterparts (participants) in a financial transaction.
- 6.13 **COUNTERPARTY RISK:** The risk that a counterparty might fail to fulfill its contractual obligations.
- 6.14 **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.
- 6.15 **DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.
- 6.16 **DELIVERY VERSUS PAYMENT (DVP):** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities with an exchange of a signed receipt for the securities.
- 6.17 **DEPOSITORY:** A state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company, in the state in which the moneys of a local agency are deposited.
- 6.18 **DIVERSIFICATION:** Dividing investment funds among a variety of

securities, issuers, and maturities.

- 6.19 **DURATION:** A measure of the timing of the cash flows to be received from a security that provides the foundation for a measure of the interest rate sensitivity of a bond. Duration is an elasticity measure and represents the percentage change in price divided by the percentage change in interest rates. A high duration measure indicates that for a given level of movement in interest rates, prices of securities will vary considerably.
- 6.20 **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.
- 6.21 **FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)** A federal agency that insures bank deposits, currently up to \$250,000 per deposit.
- 6.22 **FINRA:** Financial Industry Regulation Authority
- 6.23 **FORM 10-K:** an SEC form, filed annually as required by the U.S. Securities and Exchange Commission, that gives a comprehensive summary of a company's financial performance.
- 6.24 **IDC Ranking:** IDC Financial Publishing, Inc. compiles financial data on all banks, thrifts and credit unions reporting to the federal government, and publishes a ranking based on 35 key financial ratios.
- 6.25 **LEVERAGE:** The amplification in the return earned on funds when an investment is financed partly with borrowed money.
- 6.26 **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.
- 6.27 **LOCAL AGENCY INVESTMENT FUND (LAIF):** The aggregate of all funds from local governments that are placed in the custody of the State Treasurer for investment and reinvestment.
- 6.28 **MARKET RATE OF RETURN:** The average yield of the 90 day U.S. Treasury Bill or such other index that most closely matches the average maturity of the portfolio.
- 6.29 **MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

- 6.30 **MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase--reverse repurchase 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.
- 6.31 **MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.
- 6.32 **MONEY MARKET FUND:** Mutual fund that invests solely in money market instruments.
- 6.33 **MORTGAGE PASS-THROUGH SECURITIES:** A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.
- 6.34 **MUNICIPAL SECURITIES:** Securities issued by state and local agencies to finance capital and operating expenses.
- 6.35 **NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO):** is a credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission permits other financial firms to use for certain regulatory purposes.
- 6.36 **NEGOTIABLE CERTIFICATE OF DEPOSIT (NCD):** A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market.
- 6.37 **ORANGE COUNTY INVESTMENT POOL:** The OCIP is a pooled fund managed by the Orange County Treasurer pursuant to California Government Code sections 53601 and 53635. It is considered a very safe, liquid investment pool, investing in short term, high quality securities.
- 6.38 **PAR VALUE:** the value printed on a security such as a share certificate or bond at the time of issue.
- 6.39 **PORTFOLIO:** Collection of securities held by an investor.
- 6.40 **PRIMARY BANK:** The bank utilized by the City for it's main banking activities including daily cash and ACH transactions, direct deposit, check processing, trust services, etc.
- 6.41 **PRIMARY DEALER:** A group of government securities dealers that 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.

- 6.42 **QUALIFIED BIDDER:** Those broker/dealers that are deemed by the Assistant City Manager or City Treasurer, as applicable, to be qualified to bid on City investments. Specific qualifications of the financial institution or dealer are contained in the City's Broker/Dealer Questionnaire and Certification.
- 6.43 **RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.
- 6.44 **REDEMPTION VALUE:** The price at which the issuing company may choose to repurchase a security before its maturity date.
- 6.45 **REPURCHASE AGREEMENT:** A purchase of securities by the City pursuant to an agreement by which the seller will repurchase the securities on or before a specified date, and for a specified amount and will deliver the underlying securities to the City by book entry, physical delivery, or a third-party custodial agreement.
- 6.46 **SAFEKEEPING:** Storage and protection of a customer's financial assets, valuables, or documents, provided as a service by an institution serving as agent and, where control is delegated by the customer, also as custodian.
- 6.47 **SURPLUS FUNDS:** Those funds that are available for investment and are not anticipated to be needed for City operations for the next six (6) months.
- 6.48 **SUPRANATIONALS:** A multi-national organization whereby member states transcend national boundaries or interests to share in the decision-making to promote economic development in member countries.
- 6.49 **TOTAL RETURN:** The sum of all investment income plus all changes in the capital value of the portfolio.
- 6.50 **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.
- 6.51 **TREASURY BOND:** Long-term U. S. Treasury securities having initial maturities of more than ten years.

- 6.52 **TREASURY NOTES:** Intermediate term coupon bearing U. S. Treasury securities having initial maturities of from one to ten years.
- 6.53 **UNDERCAPITALIZED:** Capital group assignments are made in accordance with section 327.3(e)(1)(1) of the FDIC's amended assessment regulation. Neither Well Capitalized nor Adequately Capitalized.
- 6.54 **UNQUALIFIED OPINION:** An independent external auditor report that concludes the company's financial statements present fairly, or give a true and fair view, in all material respects and in accordance with applicable accounting standards.
- 6.55 **WELL CAPITALIZED:** Capital group assignments are made in accordance with section 327.3(e)(1)(1) of the FDIC's amended assessment regulation. Total Risk-Based Capital Ratio equal to or greater than 10 percent, and Tier I Risk-Based Capital Ratio equal to or greater than 6 percent, and Tier I Leverage Capital Ratio equal to or greater than 5 percent.

RE: Client Directive regarding management of the City's investment portfolio

The City of San Clemente entered into a discretionary investment advisory agreement on October 1, 2013 with Chandler Asset Management, an SEC-registered investment advisor, to manage a portion of the City's portfolio in accordance with its investment objectives and policies.

After consultation with Chandler's investment team, the City selected the Limited Maturity investment strategy for the portion of the City's portfolio managed by Chandler. This strategy invests in a well-diversified portfolio of US dollar denominated fixed income securities managed in compliance with the City's investment policy.

Starting on October 1, 2019, Chandler will make best efforts to maintain the City's market risk as measured by modified duration within +/- 10% of the duration of the ICE Bank of America Merrill Lynch 0-5 Year US Treasury Index. In addition, starting on October 1, 2019, the Chandler managed portion of the City's portfolio will use ICE Bank of America Merrill Lynch 0-5 Year US Treasury Index for performance comparisons while utilizing the ICE Bank of America Merrill Lynch 1-3 Year US Treasury and Agency Index for all previous performance comparisons.

Along with selecting a strategy we also discussed additional clarifying items in the City's investment policy:

- Section 4.10.1.2.1 – Chandler will maintain an allocation of at least 25% to securities that mature less than 2 years. Inclusive of the Chandler portfolio and the City's internally managed portfolio's allocation to liquidity vehicles and shorter maturity securities, the entire portfolio will maintain 50% of its securities maturing

- in less than 2 years.
- Although the investment policy states the benchmark for the City's entire portfolio is the ICE Bank of America Merrill Lynch 1-3 Year US Treasury and Agency Index, starting October 1, 2019 the Chandler managed portfolio will use the ICE Bank of America Merrill Lynch 0-5 Year US Treasury Index to compare both portfolio performance and characteristics.
- Starting October 1, 2019, the City's internally managed portfolio will use the ICE Bank of America Merrill Lynch US 1-Year Treasury Bill to compare both portfolio performance and characteristics.

The average duration and maturity of the portfolio is not likely to exceed the ICE Bank of America Merrill Lynch 1-3 Year US Treasury and Agency Index because the City's internally managed balance includes a high percentage of liquidity vehicles to facilitate the City's near-term cash flow needs.

The City's staff will maintain appropriate levels of liquidity utilizing an internally managed short-term portfolio. In addition, Chandler will not purchase securities issued by the Foothill/Eastern Transportation Corridor Agency and San Joaquin Hills Transportation Corridor Agency until further notice.

This directive is in effect as of November 4, 2019 and will remain in effect until it is replaced by a revised directive.

CALIFORNIA GOVERNMENT CODE

Revised on September 22th, 2016

California Government Code
Sections 16429.1, 53600-53610, 53630

(a) There is in trust in the custody of the Treasurer the Local Agency Investment Fund, which fund is hereby created. The Controller shall maintain a separate account for each governmental unit having deposits in this fund.

(b) Notwithstanding any other law, a local governmental official, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the Local Agency Investment Fund for the purpose of investment.

(c) Notwithstanding any other law, an officer of any nonprofit corporation whose membership is confined to public agencies or public officials, or an officer of a qualified quasi-governmental agency, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the Local Agency Investment Fund for the purpose of investment.

(d) Notwithstanding any other law or provision of this section, a local agency, with the approval of its governing body, may deposit in the Local Agency Investment Fund proceeds of the issuance of bonds, notes, certificates of participation, or other evidences of indebtedness of the agency pending expenditure of the proceeds for the authorized purpose of their issuance. In connection with these deposits of proceeds, the Local Agency Investment Fund is authorized to receive and disburse moneys, and to provide information, directly with or to an authorized officer of a trustee or fiscal agent engaged by the local agency, the Local Agency Investment Fund is authorized to hold investments in the name and for the account of that trustee or fiscal agent, and the Controller shall maintain a separate account for each deposit of proceeds.

(e) The local governmental unit, the nonprofit corporation, or the quasi-governmental agency has the exclusive determination of the length of time its money will be on deposit with the Treasurer.

(f) The trustee or fiscal agent of the local governmental unit has the exclusive determination of the length of time proceeds from the issuance of bonds will be on deposit with the Treasurer.

(g) The Local Investment Advisory Board shall determine those quasi-governmental agencies which qualify to participate in the Local Agency Investment Fund.

(h) The Treasurer may refuse to accept deposits into the fund if, in the judgment of the Treasurer, the deposit would adversely affect the state's portfolio.

(i) The Treasurer may invest the money of the fund in securities prescribed in Section 16430. The Treasurer may elect to have the money of the fund invested through the

Surplus Money Investment Fund as provided in Article 4 (commencing with Section 16470) of Chapter 3.

(j) Money in the fund shall be invested to achieve the objective of the fund which is to realize the maximum return consistent with safe and prudent treasury management.

(k) All instruments of title of all investments of the fund shall remain in the Treasurer's vault or be held in safekeeping under control of the Treasurer in any federal reserve bank, or any branch thereof, or the Federal Home Loan Bank of San Francisco, with any trust company, or the trust department of any state or national bank.

(l) Immediately at the conclusion of each calendar quarter, all interest earned and other increment derived from investments shall be distributed by the Controller to the contributing governmental units or trustees or fiscal agents, nonprofit corporations, and quasi-governmental agencies in amounts directly proportionate to the respective amounts deposited in the Local Agency Investment Fund and the length of time the amounts remained therein. An amount equal to the reasonable costs incurred in carrying out the provisions of this section, not to exceed a maximum of 5 percent of the earnings of this fund and not to exceed the amount appropriated in the annual Budget Act for this function, shall be deducted from the earnings prior to distribution. However, if the 13-week Daily Treasury Bill Rate, as published by the United States Department of the Treasury on the last day of the state's fiscal year is below 1 percent, then the above-noted reasonable costs shall not exceed a maximum of 8 percent of the earnings of this fund for the subsequent fiscal year, shall not exceed the amount appropriated in the annual Budget Act for this function, and shall be deducted from the earnings prior to distribution. The amount of the deduction shall be credited as reimbursements to the state agencies, including the Treasurer, the Controller, and the Department of Finance, having incurred costs in carrying out the provisions of this section.

(m) The Treasurer shall prepare for distribution a monthly report of investments made during the preceding month.

(n) As used in this section, "local agency," "local governmental unit," and "local governmental official" includes a campus or other unit and an official, respectively, of the California State University who deposits moneys in funds described in Sections 89721, 89722, and 89725 of the Education Code.

53600. As used in this article, "local agency" means county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

53600.3. Except as provided in subdivision (a) of Section 27000.3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control.

The Legislature hereby finds that the solvency and creditworthiness of each individual local agency can impact the solvency and creditworthiness of the state and other local agencies within the state. Therefore, to protect the solvency and creditworthiness of the state and all of its political subdivisions, the Legislature hereby declares that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern.

53601. This section shall apply to a local agency that is a city, a district, or other local agency that does not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body. However, Section 53635 shall apply to all local agencies that pool money in deposits or investments with other local agencies that have separate governing bodies. The legislative body of a local agency having moneys in a sinking fund or moneys in its treasury not required for the immediate needs of the local agency may invest any portion of the moneys that it deems wise or expedient in those investments set forth below. A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered, or nonregistered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisers, consultants, or managers using the agency's funds, by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery.

For purposes of this section, "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, 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 legislative body no less than three months prior to the investment:

- (a) Bonds issued by the local agency, 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.
- (b) 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.
- (c) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.
- (d) Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.
- (e) Bonds, notes, warrants, or other evidences of indebtedness of a local agency 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.
- (f) Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

(g) Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days' maturity or 40 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 30 percent of the agency's moneys may be invested in the bankers' acceptances of any one commercial bank pursuant to this section.

This subdivision does not preclude a municipal utility district from investing moneys in its treasury in a manner authorized by the Municipal Utility District Act (Division 6 (commencing with Section 11501) of the Public Utilities Code).

(h) Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (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 a surety bond.

(C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25 percent of their moneys in eligible commercial paper. Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635.

(i) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state- licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or a person with investment decisionmaking authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

(j) (1) Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.

(2) Investments in repurchase agreements may be made, on an investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that underlie 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.

(3) 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 using a 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 using 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.

(4) (A) 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 may be made only upon prior approval of the governing body of the local agency and shall be made only 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.

(B) 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) Eptance of a local agency's securities or funds as deposits.

(5) (A) "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.

(B) "Securities," for purposes of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity.

(C) "Reverse repurchase agreement" means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements.

(D) "Securities lending agreement" means an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

(E) For purposes of this section, the base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way

of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.

(F) For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.

(k) Medium-term notes, 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. Notes eligible for investment under this subdivision shall be rated "A" or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.

(l) (1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions

(m) to (q), inclusive, and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company's board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.

(2) Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.).

(3) If investment is in shares issued pursuant to paragraph (1), 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.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000).

(4) If investment is in shares issued pursuant to paragraph (2), 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.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

(5) The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include commission that the companies may charge and shall not exceed 20 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 10 percent of the agency's funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph

(1).

(m) Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

(n) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

(o) A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond of a maximum of five years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by an NRSRO and rated in a rating category of "AA" or its equivalent or better by an NRSRO. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section.

(p) 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. 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).

(q) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and

Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated "AA" or better by an NRSRO and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.

The authority of a local agency to invest funds pursuant to Section 53601 includes, in addition thereto, authority to invest in financial futures or financial option contracts in any of the investment categories enumerated in that section.

used in this article, "corporation" includes a limited liability company.

The purchase by a local agency of any investment authorized pursuant to Section 53601 or 53601.1, not purchased directly from the issuer, shall be purchased either from an institution licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association (as defined by Section 5102 of the Financial Code) or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank.

(a) A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in inverse floaters, range notes, or mortgage-derived, interest-only strips.

(b) A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in any security that could result in zero interest accrual if held to maturity. However, a local agency may hold prohibited instruments until their maturity dates. The limitation in this subdivision shall not apply to local agency investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) that are authorized for investment pursuant to subdivision (l) of Section 53601.

Notwithstanding Section 53601 or any other provision of this code, a local agency that has the authority under law to invest funds, at its discretion, may invest a portion of its surplus funds in deposits at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of deposits. The following conditions shall apply:

(a) The local agency shall choose a nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the "selected" depository institution.

(b) The selected depository institution may use a private sector entity to help place local agency deposits with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States and are within the network used by the private sector entity for this purpose.

(c) Any private sector entity used by a selected depository institution to help place its local agency deposits shall maintain policies and procedures requiring both of the following:

(1) The full amount of each deposit placed pursuant to subdivision (b) and the interest that may accrue on each such deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

(2) Every depository institution where funds are placed shall be capitalized at a level that is sufficient, and be otherwise eligible, to receive such deposits pursuant to regulations of the Federal Deposit Insurance Corporation or the National Credit Union Administration, as applicable.

(d) The selected depository institution shall serve as a custodian for each such deposit.

(e) On the same date that the local agency's funds are placed pursuant to subdivision (b) by the private sector entity, the selected depository institution shall receive an amount of insured deposits from other financial institutions that, in total, are equal to, or greater than, the full amount of the principal that the local agency initially deposited through the selected depository institution pursuant to subdivision (b).

(f) Notwithstanding subdivisions (a) to (e), inclusive, a credit union shall not act as a selected depository institution under this section or Section 53635.8 unless both of the following conditions are satisfied:

(1) The credit union offers federal depository insurance through the National Credit Union Administration.

(2) The credit union is in possession of written guidance or other written communication from the National Credit Union Administration authorizing participation of federally insured credit unions in one or more deposit placement services and affirming that the moneys held by those credit unions while participating in a deposit placement service will at all times be insured by the federal government.

(g) It is the intent of the Legislature that this section shall not restrict competition among private sector entities that provide placement services pursuant to this section.

(h) The deposits placed pursuant to this section and Section shall not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose.

(i) This section shall remain in effect only until January 1, 2021, and as of that date is repealed.

Notwithstanding Section 53601 or any other provision of this code, a local agency that has the authority under law to invest funds may, at its discretion, invest a portion of its surplus funds in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit, provided that the purchases of certificates of deposit pursuant to this section, Section 53635.8, and subdivision (i) of Section 53601 do not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose. The following conditions shall apply:

(a) The local agency shall choose a nationally or state-chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the "selected" depository institution.

(b) The selected depository institution may submit the funds to a private sector entity that assists in the placement of certificates of deposit with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States for the local agency's account.

(c) The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

(d) The selected depository institution shall serve as a custodian for each certificate of deposit that is issued with the placement service for the local agency's account.

(e) At the same time the local agency's funds are deposited and the certificates of deposit are issued, the selected depository institution shall receive an amount of deposits from other commercial banks, savings banks, savings and loan associations, or credit unions that, in total, are equal to, or greater than, the full amount of the principal that the local agency initially deposited through the selected depository institution for investment.

(f) Notwithstanding subdivisions (a) to (e), inclusive, no credit union may act as a selected depository institution under this section or Section 53635.8 unless both of the following conditions are satisfied:

(1) The credit union offers federal depository insurance through the National Credit Union Administration.

(2) The credit union is in possession of written guidance or other written communication from the National Credit Union Administration authorizing participation of federally insured credit unions in one or more certificate of deposit placement services and affirming that the moneys held by those credit unions while participating in a deposit placement service will at all times be insured by the federal government.

(g) It is the intent of the Legislature that this section shall not restrict competition among private sector entities that provide placement services pursuant to this section.

(h) This section shall become operative on January 1, 2021.

53602. The legislative body shall invest only in notes, bonds, bills, certificates of indebtedness, warrants, or registered warrants which are legal investments for savings banks in the State, provided, that the board of supervisors of a county may, by a four-fifths vote thereof, invest in notes, warrants or other evidences of indebtedness of public districts wholly or partly within the county, whether or not such notes, warrants, or other evidences of indebtedness are legal investments for savings banks.

53603. The legislative body may make the investment by direct purchase of any issue of eligible securities at their original sale or after they have been issued.

53604. The legislative body may sell, or exchange for other eligible securities, and reinvest the proceeds of, the securities purchased.

53605. From time to time, the legislative body shall sell the securities so that the proceeds may be applied to the purposes for which the original purchase money was placed in the sinking fund or the treasury of the local agency.

53606. The bonds purchased, which were issued by the purchaser, may be canceled either in satisfaction or sinking fund obligations or otherwise. When canceled, they are no longer outstanding, unless in its discretion, the legislative body holds them uncanceled. While held uncanceled, the bonds may be resold.

53607. The authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one- year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

53608. The legislative body of a local agency may deposit for safekeeping with a federal or state association (as defined by Section 5102 of the Financial Code), a trust company or a state or national bank located within this state or with the Federal Reserve Bank of San Francisco or any branch thereof within this state, or with any Federal Reserve bank or with any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System, the bonds, notes, bills, debentures, obligations, certificates of indebtedness, warrants, or other evidences of indebtedness in which the money of the local agency is invested pursuant to this article or pursuant to other legislative authority. The local agency shall take from such financial institution a receipt for securities so deposited. The authority of the legislative body to deposit for safekeeping may be delegated by the legislative body to the treasurer of the local agency; the treasurer shall not be responsible for securities delivered to and receipted for by a financial institution until they are withdrawn from the financial institution by the treasurer.

53609. Notwithstanding the provisions of this chapter or any other provisions of this code, funds held by a local agency pursuant to a written agreement between the agency and employees of the agency to defer a portion of the compensation otherwise receivable by the agency's employees and pursuant to a plan for such deferral as adopted by the governing body of the agency, may be invested in the types of investments set forth in Sections 53601 and 53602 of this code, and may additionally be invested in corporate stocks, bonds, and securities, mutual funds, savings and loan accounts, credit union accounts, life insurance policies, annuities, mortgages, deeds of trust, or other security interests in real or personal property. Nothing herein shall be construed to permit any type of investment prohibited by the Constitution.

Deferred compensation funds are public pension or retirement funds for the purposes of Section 17 of Article XVI of the Constitution.

53610. (a) For purposes of this section, "Proposition 1A receivable" means the right to payment of moneys due or to become due to a local agency, pursuant to clause (iii) of subparagraph (B) of paragraph

(1) of subdivision (a) of Section 25.5 of Article XIII of the California Constitution and Section 100.06 of the Revenue and Taxation Code.

(b) Notwithstanding any other law, a local agency may purchase, with its revenue, Proposition 1A receivables sold pursuant to Section 53999.

(c) A purchaser of Proposition 1A receivables pursuant to this section shall not offer them for sale pursuant to Section 6588.

53630. As used in this article:

(a) "Local agency" means county, city, city and county, including a chartered city or county, a community college district, or other public agency or corporation in this state.

(b) "Treasurer" means treasurer of the local agency.

(c) "Depository" means a state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company, in this state in which the moneys of a local agency are deposited.

(d) "Agent of depository" means a trust company or trust department of a state or national bank located in this state, including the trust department of a depository where authorized, and the Federal Home Loan Bank of San Francisco, which is authorized to act as an agent of depository for the purposes of this article pursuant to Section 53657.

(e) "Security" means any of the eligible securities or obligations listed in Section 53651.

(f) "Pooled securities" means eligible securities held by an agent of depository for a depository and securing deposits of one or more local agencies.

(g) "Administrator" means the Administrator of Local Agency Security of the State of California.

(h) "Savings association or federal association" means a savings association, savings and loan association, or savings bank as defined by Section 5102 of the Financial Code.

(i) "Federally insured industrial loan company" means an industrial loan company licensed under Division 7 (commencing with Section 18000) of the Financial Code, the investment certificates of which are insured by the Federal Deposit Insurance Corporation.

(j) "Corporation" includes a limited liability company.

53630.1. The Legislature hereby finds that the solvency and creditworthiness of each individual local agency can impact the solvency and creditworthiness of the state and other local agencies within the state. Therefore, to protect the solvency and creditworthiness of the state and all of its political subdivisions, the Legislature hereby declares that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern.

53630.5. (a) The definitions in Section 1750 of, and Chapter 1 (commencing with Section 99) of Division 1 of, the Financial Code apply to this section.

(b) In this article, for purposes of being a depository of moneys belonging to or being in the custody of a local agency, the phrases "state or national bank located in this state," "state or national bank," "state or national bank in this state," and "state or national banks in the state" include, without limitation, any of the following:

(1) Any California branch office of a foreign (other state) state bank that the bank is authorized to maintain under the law of its domicile and federal law.

(2) Any California branch office of a foreign (other state) national bank that the bank is authorized to maintain under federal law.

(3) Any California branch office of a foreign (other nation) bank that the bank is licensed to maintain under Article 3 (commencing with Section 1800) of Chapter 20 of Division 1.1 of the Financial Code.

(4) Any California federal branch of a foreign (other nation) bank that the bank is authorized to maintain under federal law.

Broker/Dealer Questionnaire



**CITY OF SAN CLEMENTE, CALIFORNIA
BROKER/DEALER QUESTIONNAIRE**

Date: _____

Firm Name: _____

CRD Number: _____

Local office servicing account: _____

Address: _____

Phone: _____

Corporate office: _____

Address: _____

Phone: _____

Primary Representative: _____

Please attach resumes of primary and secondary representatives covering this account.

Telephone: _____

Fax: _____

E-Mail: _____

CRD Number: _____

Secondary Representative or sales assistant: _____

Telephone: _____

Fax: _____

E-Mail: _____

CRD Number: _____



CITY OF SAN CLEMENTE, CALIFORNIA
BROKER/DEALER QUESTIONNAIRE - Page 2

Branch Manager:
Telephone:
Fax:
E-Mail:
CRD Number:

Is firm designated as a primary dealer by the Federal Reserve?

If not, does your firm maintain its own inventory?

Is the firm registered with the State Securities Board?

Is the firm and all its representatives registered with the FINRA?

In what market sectors does the account representative specialize?

List three comparable public clients currently working with this representative.

Entity name, contact and phone number.

- 1.
2.
3.

What are the market sectors in which your firm specializes? Please feel free to provide additional information regarding your firm's involvement in these sectors.

US Treasuries
US Agencies
Repo
MBS
CP/BA
Corporate
CD's



CITY OF SAN CLEMENTE, CALIFORNIA BROKER/DEALER QUESTIONNAIRE- Page 3

Has this firm, or the representatives assigned to this account, been subject to a regulatory agency, state or federal investigation for alleged improper, disreputable, unfair or fraudulent activities related to the sale of securities or money market instruments in the past five years that resulted in a suspension or censure? Are there any outstanding/pending claims? If yes, please explain.

What documentation will be provided to us? _____

If requested, do you provide any fixed income research and economic commentary? Please attach sample. _____

Please provide the firm's most recent audited financial statement. (The City will require an annual financial statement be provided.)

Describe the precautions taken by your firm to protect the interests of the public when dealing with a governmental agency.

Has your firm ever failed to meet the capital adequacy guidelines established by your regulatory organization?

Attach complete delivery instructions. **All transactions will be completed delivery versus payment.**



CITY OF SAN CLEMENTE, CALIFORNIA BROKER/DEALER QUESTIONNAIRE- Page 4

Firm Name: _____

I hereby certify that I and all sales representatives assigned to the City's account have received, reviewed and understand the Investment Policy of the City dated December 17, 2013. Our firm certifies that it has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the City and the organization that are not authorized by the Investment Policy. Responsibility is limited to the extent that analysis of the makeup of the entire portfolio requires an interpretation of subjective investment standards. Our representatives agree to exercise due diligence in informing the City of foreseeable risks associated with financial transactions conducted with the firm.

All sales personnel involved with this account have been informed of the City's objectives and risk constraints and will be advised of any changes made to the Policy once we are advised by the City.

Qualified Representative(s) of the Firm

Signed: _____

Name: _____

Title: _____

Date: _____