

ORO LOMA SANITARY DISTRICT POLICY AND STANDARD PROCEDURE

No. IV.C.3
Effective: 03/15/89
Reviewed by Board: 1/02/2024
Reviewed by Board: 10/08/2024

SUBJECT: INVESTMENT POLICY

- I. **POLICY:** It is the policy of Oro Loma Sanitary District (District) to invest public funds in a manner which prioritizes security over investment return, while meeting the daily cash flow demands of the District, and conforming to California Government Code Sections 53600 through 53686 and other statutes governing the investment of public funds. The investment policy shall be reviewed at a minimum annually, and any changes or revisions must be approved by the District's Board of Directors (Board) by resolution or motion. The investment policy, as adopted by the Board, is used to guide District staff and external investment professionals in investment decisions and transactions.
- II. **SCOPE:** This investment policy applies to the financial assets of the District, excluding the investment of employees' retirement fund(s), deferred compensation plan(s), and other post-retirement employee benefit trusts.
- III. **OBJECTIVES:** The District's funds shall be invested in accordance with applicable District policies and codes, State statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:
 1. **Safety:** Safety of the principal shall be the top priority in consideration of any investment undertaken by the District. The portfolio shall be so diversified that losses, if any, on particular securities shall be offset by revenues generated from other investments. The intention is to hold investments until maturity, unless other factors justify liquidating the investments prior to maturity. The District shall seek to preserve principal by mitigating credit risk, interest rate risk, and concentration risk.
 - a. **Credit risk:** The District shall minimize credit risk, which is the risk of loss due to the failure of security issuer or backer, by:
 - Limiting investments to those allowed by this Policy.
 - Pre-qualifying the financial institution, broker/dealers, intermediaries, and advisers with which the District will do business.
 - b. **Interest Rate Risk:** The District shall minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by 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.
 - c. **Concentration risk:** The District shall minimize concentration risk, which is defined as the overweighing of one investment type in relation to the whole. Concentration risk may also apply to lengths of maturity. The District shall diversify its investments to spread concentration risk.

2. **Liquidity:** The investment portfolio shall remain sufficiently liquid to meet anticipated operating and capital needs based on the budget and long-range plans for Renewal & Replacement and Capital Improvement Program.
3. **Yield:** Within safety and liquidity constraints, the investment portfolio shall be designed to attain a reasonable rate of return. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments should be limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

IV. STANDARD OF CARE:

1. **Prudence:** The standard of prudence to be used for managing the District's investment program is California Government Code Section 53600.3, the prudent investor standard, which states that "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."

The District's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The District recognizes that no investment is totally risk-free and that its investment activities are a matter of public record. Accordingly, the District recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the District.

2. **Ethics and Conflict of Interest:** The Board of Directors 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. Those individuals shall disclose to the District any material financial interest they have in financial institutions that conduct business with the District, and they shall subordinate their personal investment transactions to those of the District. Directors and employees involved in the investment process shall abide by California Government Code Section 109, et seq. and the California Political Reform Act.
3. **Delegation of Authority:** The authority to manage investment programs is granted to the Finance & Insurance Committee, which is comprised of two Directors appointed to the Committee by the Board, the General Manager/Treasurer (the Treasurer), and the Finance Manager. The responsibility for day-to-day maintenance of the investment program is delegated to the Treasurer. The Treasurer shall have responsibility for investing District funds, and shall develop written procedures and establish a system of internal controls (as described in Section VIII) to ensure compliance with this policy. The Treasurer may also delegate investment decision making and execution authority to an investment advisor. The advisor shall follow the Investment Policy and such other written instructions as are provided.

V. AUTHORIZATION FOR FINANCIAL INSTITUTION, DEPOSITORIES, BROKER/ DEALERS, CREDIT QUALITY RATINGS, SAFEKEEPING AND CUSTODY

- 1. Authorized Financial Institutions, and Depositories.** The Treasurer shall maintain a list, recommended by the District's Finance & Insurance Committee and approved by the Board, of FDIC insured financial institutions and depositories authorized to provide depository and other banking services for the District. To be eligible, a bank shall qualify as a depository of public funds in the State of California, as defined in California Government Code Section 53630.5, and shall secure deposits in excess of FDIC insurance coverage in accordance with California Government Code Section 53652.
- 2. Authorized Broker/Dealers.** The Treasurer shall maintain a list of authorized brokers/dealers (see Appendix B), recommended by the Finance & Insurance Committee and approved by the Board. It shall be the policy of the District to purchase securities only through those brokers/dealers. To be eligible, a broker/dealer must be registered with Financial Industry Regulatory Authority (FINRA) and / Securities & Exchange Commission (SEC) and be in compliance with SEC Rule 15c3-1 (Uniform Net Capital Rule).

The Treasurer shall select brokers/dealers on the basis of their expertise in public cash management and their ability to provide service. Periodic review of authorized brokers/dealers shall be performed to ensure service quality.

The District may purchase prime commercial paper from direct issuers, even though they are not on the approved broker/dealer list, as long as they meet the criteria outlined in Part VI. "Permissible Investment Instruments and Maturity", Section "j." of this Investment Policy.

If the District has an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of the District.

- 3. Assess the Credit Quality Ratings.** The Treasurer shall review available credit quality ratings before the purchase of any investments to assure that they conform to this investment policy. Purchases shall meet or exceed California Code requirements. In turbulent economic conditions, the District shall be careful to monitor the rating after purchase and during the entire life of the investment. Care shall be taken to ensure investments without credit ratings adhere to the investment policy objectives. Special attention shall be given to concentration and interest rate risks with adequate financial statement disclosures.
- 4. Safekeeping and Custody.** The Treasurer shall select one or more financial institutions to provide safekeeping and custodial services for the District. A Safekeeping Agreement shall be executed with each custodian bank prior to utilizing that bank's safekeeping services. All security transactions entered into by the District should be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by the third-party custodian designated by the Treasurer and evidenced by safekeeping receipts.

The custodian bank shall furnish a list of holdings on a monthly basis, and safekeeping receipts or customer confirmations shall be issued for each transaction.

The Treasurer must purchase all investment securities in the name of the District (i.e., the District possesses direct ownership of such investments). Funds from redemption or

maturity of securities shall be deposited in the custodian account. Cash transactions to/from this account must be transferred to/from the District's checking account.

VI. PERMISSIBLE INVESTMENT INSTRUMENTS AND MATURITY

1. **Permissible Investments.** Pursuant to Government Code Section 53601, the District's portfolio shall only be invested in the following instruments. The percentage limitations specified for a particular category of investment is applicable only at the date of purchase. No more than 5% of the District's portfolio shall be invested in the securities of any issuer regardless of security type, excluding U.S. Treasuries, Federal Agencies, and pooled investments such as LAIF, money market funds, or local government investment pools. In some cases, the District has adopted more restrictive limits than those required by the State of California. A security purchased in accordance with this Policy shall not have a forward settlement date exceeding 45 days from the time of investment.
 - a. Local Agency Investment Fund (LAIF) of the State of California. LAIF is part of the State Treasurer's Pooled Money Investment Account (PMIA). (Pooled money is subject to Government Code Section 53635.)
Limit: Up to maximum permitted by LAIF
 - b. Purchases of non-negotiable Certificates of Deposit, as defined by Government Code 53630.5 shall have five (5) years or less of weighted average life. The bank institution must have a minimum of three (3) stars in the Bank Stars Rating System. Deposits exceeding the FDIC-insured amount shall be secured pursuant to California Government Code Section 53652.
Limit: 30%
 - c. 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. The bank institution must have a minimum of three (3) stars in the Bank Stars Rating System. Purchases of negotiable Certificates of Deposit shall have five (5) years or less of weighted average life.
Limit: 30%
 - d. United States Treasury obligations of other government agencies for which the full faith and credit of the United States are pledged for the payment of principal and interest.
Limit: None
 - e. Federal agency mortgage-backed securities and debentures restricted to five (5) years or less of weighted average life.
Limit: 30%
 - f. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, debentures, discount notes, callable and step-up securities, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government sponsored enterprises. restricted to five (5) years or less of weighted average life.
Limit: None
 - g. Money Market Mutual Funds registered under the Investment Company Act of 1940 and in compliance with Government Code 53601(l) that:
 - (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares);
 - (2) have a constant net asset value per share of \$1.00;

- (3) invest only in the securities and obligations authorized in the applicable California statutes; and
- (4) have a rating of at least “AAA” or the equivalent by at least two Nationally Recognized Statistical Rating Organizations (NRSROs).

Limit: 20% / 10% in any one money market mutual fund

- h. Bankers Acceptance, drawn on and accepted by a commercial bank which is eligible for purchase by the Federal Reserve System, and whose senior long-term debt is rated at least “A” or the equivalent by an NRSRO at the time of purchase. Bankers Acceptances shall be rated at least “A-1” or the equivalent at the time of purchase by an NRSRO. If the bank has senior debt outstanding, it must be rated in a rating category of at least “A” or the equivalent by an NRSRO. Maturities shall not exceed 180 days from the date of trade settlement.

Limit 20%

- i. As authorized by the Board of Directors, other types of investments or deposits with banks, savings and loan association, credit unions and/or federal investment funds. All such investments under this paragraph shall conform to state and federal legal requirements for municipal government investments.

Limit 20%

- j. Commercial Paper, with a maturity not exceeding 270 days from the date of trade settlement, with the highest letter and number rating as provided for by an NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either sub-paragraph (1) or sub-paragraph (2) below:

- (1) The entity shall:

- be organized and operating in the United States as a general corporation;
- have total assets in excess of \$500,000,000; and,
- have debt other than commercial paper, if any, that is rated in a rating category of at least “A” or the equivalent by an NRSRO.

- (2) The entity shall:

- be organized within the United States as a special purpose corporation, trust, or limited liability company;
- have program-wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond; and
- have commercial paper that is rated at least “A-1” or the equivalent by an NRSRO.

Limit 25%

- 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 and shall be rated in a rating category of “A” or its equivalent or better by an NRSRO.

Limit 30%

- l. Municipal Obligations, including:
 - 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.

- 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
- 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.

Investments eligible for purchase under this paragraph must be rated in a rating category of “A” or its equivalent or better by an NRSRO.

Limit 30%

- m. Supranational obligations; United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of “AA” or its equivalent or better by an NRSRO.

Limit 30%

- n. Asset-Backed Securities; 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. Securities eligible for investment under this subdivision, that are not guaranteed by federal agencies or GSES, shall be rated in a rating category of “AA” or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less.

Limit 20%

- o. Local Government Investment Pools; 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 California Government Code section 53601 subdivisions (a) to (r), 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).

2. Maximum Maturities and Diversification. The District will attempt to match its investments with anticipated cash flow requirements. Unless matched to specific cash flows, the District will not directly invest in securities maturing more than five (5) years from the settlement date. Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be approved by the Board, by resolution or

motion, at least three months prior to the date of the investment. For purposes of compliance with this Policy, an investment's term or remaining maturity shall be measured from the settlement date to final maturity. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds, such as the LAIF investment pool, money market funds, or other overnight funds, to ensure that appropriate liquidity is maintained to meet ongoing obligations.

3. **Competitive Transactions.** All investment transactions shall be executed competitively with authorized brokers/dealers. At least three brokers/dealers shall be contacted for each transaction and their bid or offering prices shall be recorded. If the District is offered a security for which there is no other readily available competitive offering, quotations for comparable or alternative securities will be documented.

VII. PORTFOLIO PERFORMANCE

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. It is expected that the District shall establish an appropriate performance benchmark and compare the total return of its portfolio to the total return of the benchmark.

VIII. INTERNAL CONTROLS

To insure proper internal control, the Treasurer shall establish a documented system of internal controls. Such controls shall be reviewed by the Finance & Insurance Committee and the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, or unanticipated changes in financial markets, and are as follows:

1. Investments must be purchased in the District's name only and with the District's federal identification number.
2. All purchases, redemptions, and interest payments shall flow only through the custodial account with UMB Bank.

IX. REPORTING

On a monthly basis, the Finance Manager shall provide to the General Manager/Treasurer a monthly Investments & Deposits Report. The report and its attachments shall include the following information:

- a. Investment type, issuer, date of maturity, par value and dollar amount invested in all securities, and investments and monies held by the District;
- b. A description of the funds, investments and programs;
- c. 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 the valuation;
- d. A statement of compliance with the investment policy or an explanation for non-compliance; and
- e. A statement of the District's ability to meet expenditure requirements for six months, or provide reasons otherwise.

- f. Percentage of the total portfolio that represents each type of investment.
- g. List of all investment transactions, including wire transactions to/from LAIF, and other financial institution to/from U.S. Bank.

The report shall be reviewed monthly by the Finance and Insurance Committee. The Committee shall communicate any pertinent information to the Board.

On an annual basis, the independent auditor, through the audit process, shall verify the balances and market value of the District's cash and investment portfolio.

X. INSURANCE

The District shall purchase a public officials bond annually for the Treasurer. A separate policy for Errors and Omissions shall cover members of the Board and all employees.

XI. INDEMNIFICATION

Authorized investment personnel investing for the District in accordance with this policy, in compliance with the Government Code and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

XII. INVESTMENT POLICY ADOPTION

An annual review of the Investment Policy Standard Procedure shall be submitted to the Finance & Insurance Committee, followed by review and approval of the full Board.

XIII. GLOSSARY

A glossary of terms used is attached as "Appendix A".

XIV. AUTHORIZED BROKERS/DEALERS

The District has engaged an external investment advisor and authorizes the advisor to use its own list of authorized broker dealers to execute trades.

Revised by: L. Moreno and J. Dang

Approved by Board: 09/06/2022

Approved by Board: 01/02/2024

Reviewed by F&I Committee: 9/27/24

Approved by Board: 10/8/2024

Appendix A

GLOSSARY

ACCRUED INTEREST: The accumulated interest due on a bond as of the last interest payment made by the issuer.

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

ASKED: The price at which securities are offered.

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

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

BANK STAR RATING SYSTEM: A bank rating system compiled by Bauer Financial, an independent entity specializing in market analysis. Banks are rated quarterly based on financial data reported to federal regulators.

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.

CALLABLE SECURITIES: Callable securities are those which contain an option allowing the issuer to retire the securities prior to its maturity date. If the level of interest rates falls sufficiently

the issuer of the bond will exercise the option and call the bond away from investor. The issuer can save money by issuing new bonds at lower rates. Types of callable bonds can range from "one time" to "quarterly" to "continuous" calls.

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 that 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 annual financial report for the Oro Loma Sanitary District. 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 materials, and a detailed Statistical Section.

CONCENTRATION OF CREDIT RISK: The risk of loss attributed to the magnitude of a government's investment in a single issuer.

COUPON RATE: The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CURRENT YIELD (Current Return): A yield calculation determined by dividing the annual interest received on a security by the current market price that security.

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 at a discount and redeemed at maturity for full face value, e.g., U. S. Treasury Bills.

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

FAIR VALUE: The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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 deposit.

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) that 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 liquify the housing related assets of its members who must purchase stock in their district Bank.

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): An agency of the U.S. Department of Housing & Urban Development. GNMA securities are the only mortgage-backed securities backed by the full faith and credit of the U.S. Government. GNMA does not buy/sell mortgages nor does it issue securities. Instead, it guarantees mortgage-backed securities that have underlying mortgages insured by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), the Rural Housing Service (RHS), or the Office of Public & Indian Housing (PIH).

INTEREST RATE: See “Coupon Rate.”

INTEREST RATE RISK: The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

INVESTMENT POLICY: A concise and clear statement of the objectives and parameters formulated by an investor or investment Manager for a portfolio of investment securities.

LIQUIDITY: An asset that can be converted easily and quickly into cash.

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 for the California Local Agency Investment Fund (LAIF).

MARKET RISK: The risk that the value of a security will rise or decline as a result of changes in market conditions.

MARKET VALUE: Current market price of a security.

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.

MEDIUM-TERM NOTES: All corporate and depository institution debt securities with a maximum remaining maturity of five years/less.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, banker’s acceptances, etc.) are issued and traded.

MUNICIPAL NOTES, BONDS, AND OTHER OBLIGATIONS: Obligations issued by state and local governments to finance capital and operating expenses.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO): A credit rating agency (CRA) that provides its opinion on the credit worthiness of an entity and the financial obligations (such as bonds, preferred stocks, and commercial papers) issued by an entity.

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.

PAR: Face value or principal value of a bond, typically \$1,000 per bond.

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 outlining the fiduciary responsibilities of public funds investors relating to investment practices.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim

exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

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

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 15C3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government sponsored enterprises (FHLB, FNMA, SLMA, etc.) and Corporations that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, and 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.

SUPRANATIONAL INSTITUTIONS:

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

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Intermediate U.S. government debt securities with maturities of one to 10 years, and issued in denominations ranging from \$1,000 to \$1 million or more.

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.

WEIGHTED AVERAGE MATURITY: The weighted average of the remaining terms of the underlying securities, using the current balance of each security as the weighting factor.

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.

