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CITY OF MENIFEE

INVESTMENT POLICY

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INTRODUCTION

The purpose of this investment policy is to identify various policies and procedures that will foster a prudent and systematic investment program designed to seek the City of Menifee's objectives of safety, liquidity and return on investment through a diversified investment portfolio. This policy also serves to organize and formalize the City of Menifee's investment-related activities, while complying with all applicable statutes governing the investment of public funds. This policy is written to incorporate industry best practices and recommendations from sources such as the Government Finance Officers Association (GFOA), California Municipal Treasurers Association (CMTA), California Debt and Investment Advisory Commission (CDIAC) and the Association of Public Treasurers (APT).

This investment policy was endorsed and adopted by the City of Menifee's City Council and is effective as of the 18 day of October, 2023, and replaces any previous versions.

I. SCOPE

This policy covers all funds and investment activities under the direct authority of the City of Menifee, as set forth in the State Government Code, Sections 53600 *et seq.*, with the following exceptions:

- Proceeds of debt issuance shall be invested in accordance with the City of Menifee's general investment philosophy as set forth in this policy; however, such proceeds are to be invested pursuant to the permitted investment provisions of their specific bond indentures.
- Any other funds specifically exempted by the City Council.

POOLING OF FUNDS

Except for cash in certain restricted and special funds, the City of Menifee will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

II. PRUDENCE

Pursuant to California Government Code, Section 53600.3, all persons authorized to make investment decisions on behalf of the City of Menifee 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 City of Menifee, 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 City of Menifee. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

The Treasurer and other authorized persons responsible for managing City of Menifee funds acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes provided that the Treasurer or other authorized persons acted in good faith. Deviations from expectations of a security’s credit or market risk should be reported to the governing body in a timely fashion and appropriate action should be taken to control adverse developments.

III. OBJECTIVES

The City of Menifee’s overall investment program shall be designed and managed with a degree of professionalism worthy of the public trust. The overriding objectives of the program are to preserve principal, provide sufficient liquidity, and manage investment risks, while seeking a market-rate of return.

- **SAFETY.** Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City of Menifee will diversify its investments by investing funds among a variety of securities with independent returns.
- **LIQUIDITY.** The investment portfolio will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
- **RETURN ON INVESTMENTS.** The investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, ~~taking into account~~ considering the investment risk constraints for safety and liquidity needs.

IV. DELEGATION OF AUTHORITY

Authority to manage the City of Menifee’s investment program is derived from California Government Code, Sections 41006 and 53600 *et seq.*

The Governing Body is responsible for the management of the City of Menifee’s funds, including the administration of this investment policy. Management responsibility for the cash management of the City of Menifee’s funds is hereby delegated to the Treasurer.

The Treasurer will be responsible for all transactions undertaken and will establish a system of procedures and controls to regulate the activities of subordinate officials and employees. Such procedures will include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

The City of Menifee may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the City of Menifee's investment portfolio in a manner consistent with the City of Menifee's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

The City of Menifee's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City of Menifee recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of the overall portfolio's return and the cash flow requirements of the City of Menifee.

V. ETHICS AND CONFLICTS OF INTEREST

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. ~~Thus~~ Thus, employees and officials involved in the investment process shall refrain from personal business activity that could create a conflict of interest or the appearance of a conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Employees and investment officials shall disclose to the City Manager any material interests in financial institutions with which they conduct business, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the City of Menifee.

All participants in the investment process are required to comply with terms of the Political Reform Act, Fair Political Practices Commission Regulations promulgated thereunder (2 C.C.R. §§ 18110 through 18998), the City's Conflict of Interest Policy, including, without limitation, filing of Form 700, notification and recusal obligations, and Government Code section 1090 prohibitions.€

VI. INTERNAL CONTROLS

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Periodically, as deemed appropriate by the City of Menifee and/or the Governing Body, an independent analysis by an external auditor shall be conducted to review internal controls, account activity and compliance with policies and procedures.

VII. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

To the extent practicable, the Treasurer shall endeavor to complete investment transactions using a competitive bid process whenever possible. The City of Menifee's Treasurer will determine which financial institutions are authorized to provide investment services to the City of Menifee. It shall be the City of Menifee's policy to purchase securities only from authorized institutions and firms.

The Treasurer shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions which are approved for investment purposes that are selected through a process of due diligence as determined by the City of Menifee. Due inquiry shall determine whether such authorized broker/dealers, and the individuals covering the City of Menifee are reputable and trustworthy, knowledgeable and experienced in Public Agency investing and able to meet ~~all of~~ all their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

In accordance with Section 53601.5, institutions eligible to transact investment business with the City of Menifee include:

- Institutions licensed by the state and proof of FINRA certification as a broker-dealer, as defined in Section 25004 of the Corporations Code.
- Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
- Nationally or state-chartered banks.
- The Federal Reserve Bank.
- Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the City of Menifee, except where the City of Menifee utilizes an external investment adviser in which case the City of Menifee may rely on the adviser for selection.

All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the Treasurer with audited financials and a statement certifying that the institution has reviewed the California Government Code, Section 53600 *et seq.* and the City of Menifee's investment policy. The Treasurer will conduct an annual review of the financial condition and registrations of such qualified bidders.

Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

~~Selection~~ The selection of broker/dealers used by an external investment adviser retained by

the City of Menifee will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

~~original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.~~

VIII. AUTHORIZED INVESTMENTS

The City of Menifee's investments are governed by California Government Code, Sections 53600 *et seq.* Within the investments permitted by the Code, the City of Menifee seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. Percentage holding limits 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 current policy. At the time of the investment's maturity or liquidation, such funds shall be reinvested only as provided in the current policy.

An appropriate risk level shall be maintained by primarily purchasing securities that are of high quality, liquid, and marketable. The portfolio shall be diversified by security type and institution-issuer to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers.

1. MUNICIPAL SECURITIES include obligations of the City of Menifee, the State of California and any local Agency within the State of California, provided that:

- The securities are rated in a rating category of "A" or its equivalent or better by at least one nationally recognized statistical rating organization ("NRSRO").
- No more than 5% of the total portfolio may be invested in any single issuer.
- No more than 30% of the total portfolio may be in Municipal Securities.
- The maximum maturity does not exceed five (5) years.

2. MUNICIPAL SECURITIES (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.

- The securities are rated in a rating category of "A" or its equivalent or better by at least one nationally recognized statistical rating organization ("NRSRO").
- No more than 5% of the total portfolio may be invested in any single issuer.
- No more than 30% of the total portfolio may be in Municipal Securities.

- The maximum maturity does not exceed five (5) years.
3. **U.S. TREASURIES** and other government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest. There are no limits on the dollar amount or percentage that the City of Menifee may invest in U.S. Treasuries, provided that:
- The maximum maturity is five (5) years.
4. **FEDERAL AGENCIES** 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. There are no limits on the dollar amount or percentage that the City of Menifee may invest in Federal City of Menifee or Government-Sponsored Enterprises (GSEs), provided that:
- No more than 25% of the total portfolio may be invested in any single Agency/GSE issuer.
 - The maximum maturity does not exceed five (5) years.
 - The maximum percent of Agency callable securities in the portfolio will be 20%.
5. **BANKER'S ACCEPTANCES**, provided that:
- They are issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term debt obligations which are rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
 - No more than 40% of the total portfolio may be invested in Banker's Acceptances.
 - No more than 5% of the total portfolio may be invested in any single issuer.
 - The maximum maturity does not exceed 180 days.
6. **COMMERCIAL PAPER**, provided that:
- The issuer is a corporation organized and operating in the United States with assets in excess of \$500 million.
 - The securities are rated "A-1" or its equivalent or better by at least one NRSRO.
 - They are issued by corporations which have long-term obligations rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
 - City of Menifee may purchase no more than 10% of the outstanding commercial paper of any single issuer.
 - No more than 25% of the total portfolio may be invested in Commercial Paper. Under a provision sunsetting on January 1, 2026, no more than 40% of the portfolio may be invested in Commercial Paper if the Agency's investment assets under management are greater than \$100,000,000.
 - No more than 5% of the total portfolio may be invested in any single issuer.
 - The maximum maturity does not exceed 270 days.

7. **NEGOTIABLE CERTIFICATES OF DEPOSIT (NCDs)**, issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank, provided that:

- The amount of the NCD insured up to the FDIC limit does not require any credit ratings.
- Any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated “A-1” or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of “A” or its equivalent or better by at least one NRSRO.
- No more than 30% of the total portfolio may be invested in NCDs (combined with CDARS).
- No more than 5% of the total portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

~~one NRSRO; or long-term obligations rated in a rating category of “A” or its equivalent or better by at least one NRSRO.~~

- ~~• No more than 30% of the total portfolio may be invested in NCDs (combined with CDARS).~~
- ~~• No more than 5% of the total portfolio may be invested in any single issuer.~~
- ~~• The maximum maturity does not exceed five (5) years.~~

8. FEDERALLY INSURED TIME DEPOSITS (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions, provided that:

- The amount per institution is limited to the maximum covered under federal insurance.
- No more than 20% of the total portfolio will be invested in a combination of federally insured and collateralized time deposits.
- The maximum maturity does not exceed five (5) years.

9. COLLATERALIZED TIME DEPOSITS (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with securities in accordance with California law, provided that:

- No more than 20% of the total portfolio will be invested in a combination of federally insured and collateralized time deposits.
- The maximum maturity does not exceed five (5) years.

10. ~~CERTIFICATE OF DEPOSIT~~ PLACEMENT DEPOSIT SERVICE (CDARS), provided that:

- No more than 30% of the total portfolio may be invested in a combination of Certificates of Deposit, including CDARS.
- Under a provision sunseting on January 1, 2026, no more than 50% of the portfolio may be invested in deposits through a placement service, including Certificates of Deposit, if the Agency is a city, district or local agency that does not pool money with other local agencies.
- The maximum maturity does not exceed five (5) years.

11. COLLATERALIZED BANK DEPOSITS. City of Menifee’s deposits with financial institutions will be collateralized with pledged securities per California Government Code, Section 53651. There are no limits on the dollar amount or percentage that the City of Menifee may invest in collateralized bank deposits.

12. REPURCHASE AGREEMENTS collateralized with securities authorized under California Government Code, maintained at a level of at least 102% of the market value of the Repurchase Agreement. There are no limits on the dollar amount or percentage that the City of Menifee may invest, provided that:

- Securities used as collateral for Repurchase Agreements will be delivered to an acceptable third party custodian.
- Repurchase Agreements are subject to a Master Repurchase Agreement between the City of Menifee and the provider of the repurchase agreement. The Master

Repurchase Agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA).

- The maximum maturity does not exceed one (1) year.

13. STATE OF CALIFORNIA LOCAL AGENCY INVESTMENT FUND (LAIF), provided that:

- The City of Menifee may invest up to the maximum amount permitted by LAIF.
- LAIF's investments in instruments prohibited by or not specified in the City of Menifee's policy do not exclude the investment in LAIF itself from the City of Menifee's list of allowable investments, provided LAIF's reports allow the Treasurer to adequately judge the risk inherent in LAIF's portfolio.

14. LOCAL GOVERNMENT INVESTMENT POOLS

- Other LGIPs permitted by client.
- There is no issuer limitation for Local Government Investment Pools

15. CORPORATE MEDIUM TERM NOTES (MTNs), provided that:

- The issuer is a corporation 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.
- The securities are rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
- No more than 30% of the total portfolio may be invested in MTNs.
- No more than 5% of the total portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

16. ASSET-BACKED, MORTGAGE-BACKED, MORTGAGE PASS-THROUGH SECURITIES, AND COLLATERALIZED MORTGAGE OBLIGATIONS FROM ISSUERS NOT DEFINED IN SECTIONS 3 AND 4 OF THE AUTHORIZED INVESTMENTS SECTION OF THIS POLICY, provided that:

- The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.
- No more than 20% of the total portfolio may be invested in these securities.
- No more than 5% of the portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer.
- The maximum legal final maturity does not exceed five (5) years.

17. MUTUAL FUNDS AND MONEY MARKET MUTUAL FUNDS that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that:

- a. **MUTUAL FUNDS** that invest in the securities and obligations as authorized under California Government Code, Section 53601 (a) to (k) and (m) to (q) inclusive and that meet either of the following criteria:

- (i) Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
- (ii) Have 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 California Government Code, Section 53601 and with assets under management in excess of \$500 million.
- No more than 10% of the total portfolio may be invested in shares of any one mutual fund.
- b. **MONEY MARKET MUTUAL FUNDS** registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:
 - (i) Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
 - (ii) Have 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 \$500 million.
 - No more than 20% of the total portfolio may be invested in the shares of any one Money Market Mutual Fund.
- c. No more than 20% of the total portfolio may be invested in these securities.

18. SUPRANATIONALS, provided that:

- Issues are US 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.
- The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.
- No more than 30% of the total portfolio may be invested in these securities.
- No more than 10% of the total portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

~~(ii) Have 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 California Government Code, Section 53601 and with assets under management in excess of \$500 million.~~

- ~~• No more than 10% of the total portfolio may be invested in shares of any one mutual fund.~~

~~b. MONEY MARKET MUTUAL FUNDS registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:~~

~~(i) Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or~~

~~(ii) Have 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 \$500 million.~~

- ~~• No more than 20% of the total portfolio may be invested in the shares of any one Money Market Mutual Fund.~~

~~c. No more than 20% of the total portfolio may be invested in these securities.~~

~~18. SUPRANATIONALS, provided that:~~

- ~~• Issues are US 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.~~
- ~~• The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.~~
- ~~• No more than 30% of the total portfolio may be invested in these securities.~~
- ~~• No more than 10% of the total portfolio may be invested in any single issuer.~~
- ~~• The maximum maturity does not exceed five (5) years.~~

IX. PROHIBITED INVESTMENT VEHICLES AND PRACTICES

- State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.
- In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
- Investment in any security that could result in a zero-interest accrual if held to maturity is prohibited.
- Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.

- Purchasing or selling securities on margin is prohibited.
- The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.
- The purchase of foreign currency denominated securities is prohibited.
- The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is prohibited.

X. INVESTMENT POOLS/MUTUAL FUNDS

The City of Menifee shall conduct a thorough investigation of any pool or mutual fund prior to making an investment, and on a continual basis thereafter. The Treasurer shall develop a questionnaire which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

XI. COLLATERALIZATION

CERTIFICATES OF DEPOSIT (CDS). The City of Menifee shall require any commercial bank or savings and loan association to deposit eligible securities with an Agency of a depository approved by the State Banking Department to secure any uninsured portion of a Non-Negotiable Certificate of Deposit. The value of eligible securities as defined pursuant to California Government Code, Section 53651, pledged against a Certificate of Deposit shall be equal to 150% of the face value of the CD if the securities are classified as mortgages and 110% of the face value of the CD for all other classes of security.

COLLATERALIZATION OF BANK DEPOSITS. This is the process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing repayment of deposited funds. The City of Menifee shall require any bank or financial institution to comply with the collateralization criteria defined in California Government Code, Section 53651.

REPURCHASE AGREEMENTS. The City of Menifee requires that Repurchase Agreements be collateralized only by securities authorized in accordance with California Government Code:

- The securities which collateralize the repurchase agreement shall be priced at Market Value, including any Accrued Interest plus a margin. The Market Value of

the securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities.

- Financial institutions shall mark the value of the collateral to market at least monthly and increase or decrease the collateral to satisfy the ratio requirement described above.
- The City of Menifee shall receive monthly statements of collateral.

XII. DELIVERY, SAFEKEEPING AND CUSTODY

DELIVERY-VERSUS-PAYMENT (DVP). All investment transactions shall be conducted on a delivery-versus-payment basis.

SAFEKEEPING AND CUSTODY. To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all cash and securities in the City of Menifee's portfolio shall be held in safekeeping in the City of Menifee's name by a third party custodian, acting as agent for the City of Menifee under the terms of a custody agreement executed by the bank and the City of Menifee. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by the City of Menifee from the custodian listing all securities held in safekeeping with current market data and other information.

The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) money mutual funds, since the purchased securities are not deliverable.

XIII. MAXIMUM MATURITY

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities.

The City of Menifee will not invest in securities maturing more than five (5) years from the date of trade settlement, unless the Governing Body has by resolution granted authority to make such an investment.

XIV. RISK MANAGEMENT AND DIVERSIFICATION

MITIGATING CREDIT RISK IN THE PORTFOLIO

Credit risk is the risk that a security or a portfolio will lose some or all its value due to a real or perceived change in the ability of the issuer to repay its debt. The City of Menifee will mitigate credit risk by adopting the following strategies:

- The diversification requirements included in the "Authorized Investments" section of this policy are designed to mitigate credit risk in the portfolio.

- No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.
- The City of Menifee may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or City of Menifee's risk preferences.
- If the credit ratings of any security owned by the City of Menifee are downgraded to a level below the quality required by this investment policy, it will be the City of Menifee's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.
 - If a security is downgraded, the Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.
 - If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the Governing Body.

MITIGATING MARKET RISK IN THE PORTFOLIO

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The City of Menifee recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The City of Menifee will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The City of Menifee further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The City of Menifee, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The City of Menifee will maintain a minimum of six months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements.
- The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.
- The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the City of Menifee based on the City of Menifee's investment objectives, constraints and risk tolerances.

XV. REVIEW OF INVESTMENT PORTFOLIO

The Treasurer shall periodically, but no less than quarterly, review the portfolio to identify investments that do not comply with this investment policy and establish protocols for reporting major and critical incidences of noncompliance to the Governing Body.

XVI. PERFORMANCE EVALUATION

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City of Menifee's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments.

The Treasurer shall monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s), which will be included in the Treasurer's quarterly report. The Treasurer shall select an appropriate, readily available index to use as a market benchmark. Benchmarks may change over time based on changes in market conditions or cash flow requirements.

XVII. REPORTING

MONTHLY REPORTS

Monthly transaction reports will be submitted by the Treasurer to the Governing Body within 45 days of the end of the reporting period in accordance with California Government Code Section 53607.

QUARTERLY REPORTS

The Treasurer will submit a quarterly investment report to the Governing Body which provides full disclosure of the City of Menifee's investment activities within 45 days after the end of the quarter. These reports will disclose, at a minimum, the following information about the City of Menifee's portfolio:

1. An asset listing showing par value, cost and independent third-party fair market value of each security as of the date of the report, the source of the valuation, type of investment, issuer, maturity date and interest rate.
2. Transactions for the period.
3. A description of the funds, investments and programs (including lending programs) managed by contracted parties (i.e. LAIF; investment pools, outside money managers and securities lending agents)
4. A one-page summary report that shows:
 - a. Average maturity of the portfolio and modified duration of the portfolio;
 - b. Maturity distribution of the portfolio;
 - c. Percentage of the portfolio represented by each investment category;
 - d. Average portfolio credit quality; and,

- e. Time-weighted total rate of return for the portfolio for the prior one month, three months, twelve months and since inception compared to the City of Menifee's market benchmark returns for the same periods;
5. A statement of compliance with investment policy, including a schedule of any transactions or holdings which do not comply with this policy or with the California Government Code, including a justification for their presence in the portfolio and a timetable for resolution.
6. A statement that the City of Menifee has adequate funds to meet its cash flow requirements for the next six months.

ANNUAL REPORTS

A comprehensive annual report will be presented to the Governing Board. This report will include comparisons of the City of Menifee's return to the market benchmark return, suggest policies and improvements that might enhance the investment program, and will include an investment plan for the coming year.

XVIII. REVIEW OF INVESTMENT POLICY

The investment policy will be reviewed and adopted at least annually, but no later than within 120 days of the end of the fiscal year, to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

Any recommended modifications or amendments shall be presented by Staff to the Governing Body for their consideration and adoption.

XIX. APPENDIX A PERMITTED INVESTMENTS

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2022)^A APPLICABLE TO ALL LOCAL AGENCIES^B

See "Table of Notes" on the next page for footnotes related to this table.

INVESTMENT TYPE	MAXIMUM REMAINING MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO	City of Menifee Policy Maximums	MINIMUM QUALITY REQUIREMENTS	GOVERNMENT CODE SECTIONS
Local Agency Bonds	5 years	None	None 30%	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	None	53601(b)
State Obligations: CA and Others	5 years	None	None 30%	None	53601(c) 53601(d)
CA Local Agency Obligations	5 years	None	None 30%	None	53601(e)
U.S. Agency Obligations	5 years	None	None 25%	None	53601(f)
Bankers' Acceptance	180 days	40% ^E	40% ^E	None	53601(g)
Commercial Paper: Non-pooled Funds ^F (under \$100,000,000 of investments)	270 days or less	25% of the agency's money ^G	25% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(c)
Commercial Paper: Non-pooled Funds ^F (min. \$100,000,000 of investments)	270 days or less	40% of the agency's money ^G	25% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(c)
Commercial Paper: Pooled Funds ^I	270 days or less	40% of the agency's money ^G	25% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30% ^J	2030 % ^J	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None 20%	None	53630 et seq.
Placement Service Deposits	5 years	50% ^K	30% ^K	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50% ^K	30% ^K	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days^L	20% of the base value of the portfolio	20% of the base value of the portfolio	None^M	53601(j)
Medium Term Notes ^N	5 years or less	30% —	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds and Money Market Mutual Funds	N/A	20% ^O	20% ^O	Multiple ^{P,Q}	53601(l) and 53601.6(b)
Collateralized Bank Deposits ^R	5 years	None	20%	None	53630 et seq. and 53601(n)
Mortgage Pass-through and Asset-Backed Securities	5 years or less	20%	20%	"AA" rating category or its equivalent or better	53601(o)
County Pooled Investment Funds	N/A	None	None	None	27133
Joint Powers Authority Pool	N/A	None	None	Multiple ^S	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	None	16429.1
Voluntary Investment Program Fund ^T	N/A	None	None	None	16340
Supranational Obligations ^U	5 years or less	30%	30%	"AA" rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	None	53601(r), 53635(c), and 57603

TABLE OF NOTES FOR APPENDIX A

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| <p>A Sources: Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53630 et seq., 53635, 53635.8, and 57603.</p> <p>B Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.</p> <p>C Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five-year remaining maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.</p> <p>D Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.</p> <p>E No more than 30 percent of the agency's money may be in bankers' acceptances of any one commercial bank.</p> <p>F Includes agencies defined as a city, a district, or other local agency that do not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body.</p> <p>G Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper and medium-term notes of any single issuer.</p> <p>H Issuing corporation must be organized and operating within the U.S., have assets in excess of \$500 million, and debt other than commercial paper must be in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization, or the issuing corporation must be organized within the U.S. as a special purpose corporation, trust, or LLC, have program wide credit enhancements, and have commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating agency.</p> <p>I Includes agencies defined as a county, a city and county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set forth in Section 53601(h)(2)(C).</p> <p>J No more than 30 percent of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).</p> <p>K Effective January 1, 2020, no more than 50 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i)). On January 1, 2026, the maximum percentage of the portfolio reverts back to 30 percent. Investments made pursuant to 53635.8 remain subject to a maximum of 30 percent of the portfolio.</p> | <p>L Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if 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 dates of the same security.</p> <p>M Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.</p> <p>N "Medium-term notes" are defined in Section 53601 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."</p> <p>O No more than 10 percent invested in any one mutual fund. This limitation does not apply to money market mutual funds.</p> <p>P A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies, or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53635.</p> <p>Q A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of \$500 million.</p> <p>R Investments in notes, bonds, or other obligations under Section 53601(n) require that collateral be placed 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, among other specific collateral requirements.</p> <p>S A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).</p> <p>T Local entities can deposit between \$200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.</p> <p>U Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less.</p> |
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XX. GLOSSARY OF INVESTMENT TERMS

AGENCIES. Shorthand market terminology for any obligation issued by a *government-sponsored entity (GSE)*, or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called “FreddieMac” issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as “FannieMae,” issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as “GinnieMae,” issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER’S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which “accepts” the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline, the issuer will likely call its current securities and reissue them at a lower rate of interest.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate.
CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service ___ that allows local agencies to purchase more than \$250,000 in CDs from a

single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. ~~CDARS-Intrafi is currently the only~~ entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than \$250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED BANK DEPOSIT. A bank deposit that is collateralized at least 100% (principal plus interest to maturity). The deposit is collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

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.

COLLATERALIZED TIME DEPOSIT. Time deposits that are collateralized at least 100% (principal plus interest to maturity). These instruments are collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

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

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

~~DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.~~

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a security to changes interest rates.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC). The Federal Deposit Insurance Corporation (FDIC) is an independent federal Agency insuring deposits in U.S. banks and thrifts in the event of bank failures. The FDIC was created in 1933 to maintain public confidence and encourage stability in the financial system through the promotion of sound banking practices.

FEDERALLY INSURED TIME DEPOSIT. A time deposit is an interest-bearing bank deposit account that has a specified date of maturity, such as a certificate of deposit (CD). These deposits are limited to funds insured in accordance with FDIC insurance deposit limits.

FIDUCIARY. A person or organization that acts on behalf of another person(s) or organization that puts their clients' interest ahead of their own as they are bound both legally and ethically to act in the other's best interests.

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL AGENCY INVESTMENT FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MATURITY. The final date upon which the principal of a security becomes due and payable. The investment's term or remaining maturity is measured from the settlement date to final maturity.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis.

MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100-basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MONEY MARKET MUTUAL FUND. A mutual fund that invests exclusively in short-term securities. Examples of investments in money market funds are certificates of deposit and U.S. Treasury securities. Money market funds attempt to keep their net asset values at \$1 per share.

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.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO).

A credit rating Agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CERTIFICATE OF DEPOSIT (CD). 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 and are payable upon order to the bearer or initial depositor (investor).

PAYDOWN. A reduction in the principal amount owed on a bond, loan, or other debt.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same

transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

SECURITIES AND EXCHANGE COMMISSION (SEC). The U.S. Securities and Exchange Commission (SEC) is an independent federal government Agency responsible for protecting investors, maintaining fair and orderly functioning of securities markets and facilitating capital formation. It was created by Congress in 1934 as the first federal regulator of securities markets. The SEC promotes full public disclosure, protects investors against fraudulent and manipulative practices in the market, and monitors corporate takeover actions in the United States.

SECURITIES AND EXCHANGE COMMISSION (SEC) RULE 15c3-1. An SEC rule setting capital requirements for brokers and dealers. Under Rule 15c3-1, a broker or dealer must have sufficient liquidity in order to cover the most pressing obligations. This is defined as having a certain amount of liquidity as a percentage of the broker/dealer's total obligations. If the percentage falls below a certain point, the broker or dealer may not be allowed to take on new clients and may have restrictions placed on dealings with current client.

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.

Revision History

Revision No.	Date Approved	Approved By:	Comments
0	10/01/2008	City Council	2008-2009 Investment Policy; Resolution No. 08-18
1	08/04/2009	City Council	2009-2010 Investment Policy; Resolution No. 09-110
2	11/15/2011	City Council	2011-2012 Investment Policy; Resolution No. 11-240
3	12/04/2012	City Council	2012-2013 Investment Policy; Resolution No. 12-299
4	11/06/2013	City Council	2013-2014 Investment Policy; Resolution No. 13-345
5	03/06/2019	City Council	2018-2019 Investment Policy; Resolution No. 19-775
6	05/05/2021	City Council	2020-2021 Investment Policy; Resolution No. 21-1018
7	09/21/2022	City Council	2022-2023 Investment Policy; Resolution No. 22-1201
8	10/18/2023	City Council	2023-2024 Investment Policy; Resolution No. 23-1362
<u>9</u>	<u>06/05/2024</u>	<u>City Council</u>	<u>2024-2025 Investment Policy; Resolution No. 24-</u>