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June 5, 2026

Honorable Members of the Los Angeles City Council
c/o Office of the City Clerk
200 North Spring Street, Room 395
Los Angeles, CA 90012

ATTN: Budget & Finance Committee

RE: OFFICE OF FINANCE - 2026-27 INVESTMENT POLICY

Dear Honorable Members:

In accordance with Chapter 5.1, Article 1, Section 20.90 of the City of Los Angeles Administrative Code, the City Treasurer shall annually render to the City Council a Statement of Investment Policy (Policy). As such, the attached Policy is hereby transmitted for your consideration.

Following review of California Government Code, it has been determined that no changes are necessary for proposed Policy.

Please contact Thomas Juarez, Chief Investment Officer, in the Office of Finance at (213) 978-4039 if you have questions.

Respectfully,

Diana Mangioglu
City Treasurer

CITY OF LOS ANGELES

STATEMENT OF INVESTMENT POLICY

Effective: July 1, 2026

Office of Finance

Diana Mangioglu
City Treasurer

Thomas Juarez
Chief Investment Officer

200 N. Spring Street
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City of Los Angeles
Statement of Investment Policy

I. Policy Statement

The purpose of this Investment Policy (Policy) is to establish cash management and investment guidelines for the City Treasurer, who is responsible for the stewardship of the City of Los Angeles Investment Program. Each transaction and the entire portfolio must comply with California Government Code Sections 53600 and 53635 et seq. and this Policy. All general pool portfolio activities will be judged by the standards of the Policy and ranking of investment objectives. Those activities that violate its spirit and intent will be deemed to be contrary to the Policy. This Policy conforms to customary standards of prudent investment management. Should the provisions of the Code change from those contained herein; such provisions will be considered incorporated in this Policy. This Policy shall remain in effect until the Los Angeles City Council and the Mayor approve a subsequent revision.

II. Scope

This Investment Policy applies to all financial assets and investment activities of the City with the following exceptions:

1. Investments in the City's Defined Contribution Plans (Deferred Compensation)
2. Investments of Debt Service, Construction, Acquisition, Project, and Bond Reserve Funds (Debt Issuance)
3. Investments in the City's Defined Benefit Plans (Pension)
4. Investments in special investment pools. These pools will be managed in accordance with the respective pool's policy. If none exists, the pool's policy will be deemed to be the California State Government Code Sections 53600 – 53635 et seq.

III. Delegation

In accordance with the California Government Code, Section 53607, the City Council hereby delegates the authority to invest or reinvest the City's funds, to sell or exchange securities purchased, and to deposit securities for safekeeping to the City Treasury.

A. The City Treasurer shall establish written procedures (guidelines) for the operation of the investment program consistent with this Policy, including establishment of appropriate written agreements with financial institutions. With approval of the Mayor and City Council, the City Treasurer may engage independent investment managers to assist in the investment of the City's financial assets.

B. No persons may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the City Treasurer.

IV. Standard of Care

Investment officials managing City funds shall use the "Prudent Investor" standard. Investment officers acting in accordance with this Policy, written portfolio guidelines and procedures, and exercising due diligence shall be relieved of personal responsibility for individual security's credit risk and/or market price changes, provided deviations from expectations are reported in the monthly and quarterly investment reports to the City Council, and appropriate action is taken to control adverse developments.

The Prudent Investor Rule as described in California Government Code Section 53600.3 states that " . . . all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

The City Treasurer, and City employees involved in the investment process, shall refrain from all personal business activity that could conflict with the management of the investment program. All individuals involved with the investment of City funds, or review of investment transactions, will be required to report all gifts and income in accordance with City Ordinance and California state law.

When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the City Treasurer shall act with the care, skill, prudence and diligence to meet the aims of the investment objectives listed in Section V., Investment Objectives.

V. Investment Objectives

The Investment Program shall ensure that all proceeds are prudently invested in order to earn a market rate of return, while awaiting application for governmental purposes. In managing the Investment Program, the City Treasurer and authorized Office of Finance (Finance) personnel, should avoid all transactions that fall outside of the prudent investor standard as defined in Section IV. Investments should be made with precision and care considering the safety of the principal investment, as well as the income to be derived from the investment. The specific objectives for the Program are ranked in order of importance.

A. Safety of Principal

The City's first objective shall be to protect the portfolio's value by instituting prudent practices to manage portfolio risk and by instituting a system of controls that are adequate to protect against fraud or mismanagement. Examples of prudent practices to manage portfolio risk might include such techniques as establishing a target average duration to control exposure to market, or interest rate risk; Interest rate risk is measured by the sensitivity of value based on a change of interest rates in general. Market risk may be mitigated by the diversification of maturities of fixed income securities. Another example would be establishing a minimum rating standard for corporate investments to control credit risk. Credit risk is measured by the probability that an issuer will not make timely payment of principal or interest. The risk can be measured by credit ratings from "nationally recognized statistical rating organizations" such as Moody's and Standard & Poor's (S&P). Other research techniques include but are not limited to probability of default analysis based on the Merton model, which measures the financial viability of a corporation.

The City Treasurer's goal is to safeguard the principal of the funds invested; however, the City Treasurer may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity, or rate of return of the portfolio in response to market conditions and/or the City's risk preferences.

B. Liquidity

The second objective of the Investment Program shall be to have sufficient funds to ensure the City Treasurer can meet all operating requirements of the City that may be reasonably anticipated (e.g. daily cash flow requirements). Flexibility may be achieved in a number of ways including purchasing short term-maturity investments, including but not limited to, collected balance accounts, registered money market funds, repurchase agreements, State of California Local Agency Investment Fund (LAIF), county pools, and other permissible investments that are readily marketable to a large number of securities dealers.

C. Rate of Return

The third objective of the Investment Program shall be designed to attain a market rate of return through budgetary and economic cycles consistent with the risk limitations, prudent investment principles, and cash flow characteristics identified herein. For comparative purposes, the City will compare its performance to the performance of market benchmarks of similar duration and sector allocation.

VI. Implementation

In order to provide direction to those responsible for management of the Investment Program, the City Treasurer has established this Policy and will render it to the City Council for consideration in accordance with the City of Los Angeles Administrative Code (Admin Code), Chapter 5.1, Article 1, Section 20.90 on an annual basis.

VII. Internal Controls

The City Treasurer shall establish internal controls to provide reasonable assurance that the investment objectives are met and to ensure that the assets are protected from theft or misuse. The City Treasurer shall also be responsible for ensuring that all investment transactions comply with the City's Investment Policy and the California Government Code.

The City Treasurer shall establish a process for daily, monthly, quarterly, and annual review and monitoring of Investment Program activity.

Daily, the City Treasurer or authorized finance personnel shall review the investment activity, as well as corresponding custodial and commercial bank balances and positions for compliance with the Investment Policy and Guidelines.

The City Controller's Office shall conduct an annual audit of the Investment Program's activities. It is to be conducted to determine compliance with the City's Investment Policy and the Government Code. The audit shall be conducted by staff with experience in auditing large, complex investment programs consistent with industry standards as promulgated by the Global Investment Performance Standards (GIPS) adopted by the CFA Institute Board of Governors.

VIII. Investment Parameters

A. Investment of Funds

The Cash Flow Horizon is the time period for which the pooled investment fund's cash flow can be reasonably forecasted. Consistent with the California Government Code requirements, this Policy establishes the Horizon to be six months.

The General Pool is comprised of three (3) portfolios: the Core, or short-term portfolio, the Reserve portfolio and the Extended Reserve portfolio. All portfolios are actively managed to ICE Indices, which are nationally recognized benchmarks.

The Core portfolio in conjunction with tax receipts, and departmental deposits will be managed to immunize the City's daily cash flow needs.

The Reserve Portfolio is invested in order to optimize the long-term return of the General Pool, the target effective duration for the Reserve Portfolio is currently established at a level that is equal to the effective duration of the Portfolio's benchmark index. At any given time, the effective duration of the Reserve Portfolio will be determined by investment staff within the limits described above, with approval of the City Treasurer. While it is not possible to define all of the specific criteria that might be taken into account in establishing investment strategy, including effective duration and convexity, such factors as the general level of interest rates, the shape of the yield curve, economic and interest rate outlooks, and specific opportunities within the market will be considered. The effective duration will approximate the Reserve's effective duration benchmark by ($\pm$10%).

The Extended Reserve Portfolio is invested in order to enhance the long-term return of the General Pool, the target effective duration for the Extended Reserve Portfolio is currently established at a level that is equal to the effective duration of the Portfolio's benchmark index. At any given time, the effective duration of the Extended Reserve Portfolio will be determined by investment staff within the limits described above, with approval of the City Treasurer. While it is not possible to define all of the specific criteria that might be taken into account in establishing investment strategy, including effective duration and convexity, such factors as the general level of interest rates, the shape of the yield curve, economic and interest rate outlooks, and specific opportunities within the market will be considered. The effective duration will approximate the Extended Reserve's effective duration benchmark by ($\pm$10%).

B. Competitive Bidding

It is preferred that all investment purchases be made through competitive bidding. However, this policy recognizes that competitive bidding is not applicable for new issues since these issues are quoted at the same price at or near par for a certain period of time. This policy also recognizes that for secondary market agencies, corporate bonds, and some money market securities, it is not always possible to locate three brokers who offer the same security. In the event that three quotes are not obtained, supporting documentation from an independent financial source must be included to demonstrate market pricing.

However, securities may be liquidated without soliciting competitive bids in order to reduce future losses on securities of companies with financial difficulties that are or are anticipated to experience rapidly declining market value.

C. Authorized Investments

Investment Types

Authorized investments shall conform to California Government Code Sections 53601 et seq. and 53635 et seq. Authorized investments shall also include, in accordance with California Government Code Section 16429.1 et seq., investments into the Local Agency Investment Fund (LAIF) or the Los Angeles County Pool Fund in accordance with California Government Code Section 53684.

The authority to invest funds pursuant to California Government Code Section 53601 includes the authority to invest in financial futures or financial option contracts in any of the investment categories enumerated in that section.

Zero coupon bonds and similar investments that are purchased at a level below the face value are permitted. In accordance with California Government Code 53601 (b), Local Agencies are permitted to invest in securities issued by, or backed by, the United States Government that could result in zero or negative interest accrual if held to maturity. This statute will expire on January 1st, 2026.

Collateralization

Full collateralization of deposits is required on all demand deposits in accordance with California Government Code Section 53652.

Repurchase Agreements

Under California Government Code Section 53601, paragraph (j) and Section 53635, the City Treasurer may enter into Repurchase Agreements and Reverse Repurchase Agreements. The maximum maturity of a Repurchase Agreement shall be one year. The maximum maturity of a reverse repurchase agreement shall be 92 days, and the proceeds of a reverse repurchase agreement may not be invested beyond the expiration of the agreement. The reverse repurchase agreement must be "matched to maturity" and meet all other requirements delineated in the California Government code.

All repurchase agreements must have an executed City of Los Angeles Master Repurchase Agreement on file with both the City Treasurer and the Broker/Dealer. Repurchase Agreements executed with approved broker-dealers must be collateralized with either (1) U.S. Treasuries or Agencies with a full market value of 102% for collateral marked to market daily; or (2) money market instruments which have been approved by the City or are designated by contractual agreement with a third party engaged in securities lending and which meet the qualifications of the Policy, with a market value of 102%. Since the market value of the underlying securities is subject to daily market fluctuations, investments in repurchase agreements shall be in compliance if the value of the underlying securities is returned to 102% no later than the next business day.

Securities Lending Program

The City Treasurer is authorized to engage contractors to perform securities lending activities or to permit custodian banks to subcontract for securities lending services as delineated in the SECURITIES LENDING AUTHORIZATION AGREEMENT DATED OCTOBER 1, 2012.

Statement of Investment Policy for the City of Los Angeles, Effective: July 1, 2026

LOCAL AGENCY INVESTMENT GUIDELINES

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2026)[A] APPLICABLE TO ALL LOCAL AGENCIES[B]

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

INVESTMENT TYPE	MAXIMUM MATURITY[C]	MAXIMUM SPECIFIED % OF PORTFOLIO[D]	MINIMUM QUALITY REQUIREMENTS	GOV'T CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations—CA And Others	5 years	None	None	53601(c) 53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40%[E]	None	53601(g)
Commercial Paper—Non-Pooled Funds[F] (under $100,000,000 of investments)	397 days or less	25%[G]	Highest letter and number rating by an NRSRO[H]	53601(h)
Commercial Paper—Non-Pooled Funds[F] (min. $100,000,000 of investments)	397 days or less	40%[G]	Highest letter and number rating by an NRSRO[H]	53601(h)
Commercial Paper—Pooled Funds[I]	397 days or less	40%[J]	Highest letter and number rating by an NRSRO[H]	53635(a)
Negotiable Certificates of Deposit	5 years	30%[K]	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50%[L]	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50%[L]	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days[M]	20% of the base value of the portfolio	None[N]	53601(j)
Medium-Term Notes[O]	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds And Money Market Mutual Funds	N/A	20%[P]	Multiple[Q, R]	53601(l) and 53601.6(b)
Collateralized Bank Deposits[S]	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass–Through and Asset–Backed Securities[T]	5 years or less[T]	20%	"AA" rating category or its equivalent or better[T]	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple[U]	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund[V]	N/A	None	None	16340
Supranational Obligations[W]	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	7 None	None	53601(r), 53635(c) and 57603

TABLE OF NOTES FOR FIGURE 1

[A] Sources: Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53630 et seq., 53635, 53635.8, and 57603.

[B] Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.

[C] Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years from the settlement date. 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.

[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.

[E] No more than 30% of the agency's money may be in bankers' acceptances of any one commercial bank.

[F] Applies to local agencies, other than counties or a city and county, that are a city, a district, or other local agency that do not pool money in deposits or investments with other local agencies other than local agencies that have the same governing body (non-pooled).

[G] Local agencies, described in footnote F (non-pooled), may invest no more than 10% of their investment assets in the commercial paper and medium-term notes of any single issuer.

[H] Issuing entity must be organized and operating within the U.S. as a general corporation, have assets in excess of $500 million, and have debt other than commercial paper, if any, rated by a NRSRO in a rating category of "A" or its equivalent or higher; or the issuing entity 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 NRSRO.

[I] Includes the City of Los Angeles and 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 (pooled).

[J] Local agencies, described in footnote I (pooled), may invest no more than 10% of their investment assets in the commercial paper of any single issuer.

[K] No more than 30% of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).

[L] Effective January 1, 2020, no more than 50% 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, 2031, the maximum percentage of the portfolio reverts back to 30%. Investments made pursuant to 53635.8 remain subject to a maximum of 30% of the portfolio.

[M] 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.

[N] 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.

[O] "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] No more than 10% invested in any one mutual fund. This limitation does not apply to money market mutual funds.

[Q] 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.

[R] 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.

[S] 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.

[T] Security types authorized under Section 53601(o) that are issued or guaranteed by an issuer identified in subdivisions (b) or (f), are not subject to the limitations placed on privately issued securities authorized in Section 53601(o)(2)(A)(B).

[U] 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 (q).

[V] 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.

[W] 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.

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D. Prohibited Investments

This Policy specifically prohibits the investment of any funds in the following derivative securities as defined in California Government Code Section 53601.6:

Floating Rate Notes (FRNs) are allowed for Treasury, Agency, Supra and Corporate MTNs, provided that such investments follow each sector's specific guidelines. It should be noted that investments such as Inverse Floaters, Range Notes, MBS Interest-rate Only Strips, are prohibited.

Where a percentage limitation of maximum maturity is established, for the purpose of determining investment compliance, that maximum amount will be applied on the date of settlement.

E. Credit Requirements, Maximum Maturities, and Maximum Concentrations

All long-term issuers rated A, or higher by two Nationally Recognized Statistical Rating Organization (NRSO) are approved for purchase. Reserve funds, funds with longer-term investment horizons and securities purchased in connection with a securities lending program may be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years to better achieve established portfolio investment objectives. The City Council hereby grants express authority for the purchase of securities in excess of five years as derived from California Government Code Section 53601. The maximum stated final maturity of Bonds issues by a local agency, United States Treasury obligations and Federal agency or United States government-sponsored enterprises should be thirty (30) years.

To the extent that the City's authorized securities lending agent does not utilize the full 20% allocation, the City may enter into reverse repurchase agreements in accordance with the California Government Code. The term to maturity of such agreements may not exceed 92 days and the maturity of the securities purchased with the proceeds must match the maturity of the reverse repurchase agreement.

Constraints may be increased as part of the Investment Guidelines and the Approved Lists.

No more than 10% of the portfolio, except Treasuries and Agencies, may be invested in securities of a single issuer including its related entities

F. Linked Banking Program

The City, in exercising its power, promotes long-term economic well-being of its citizens to ensure economic growth as derived from the California Government Code Section 53601.8, Section 53635.8 and the City Administrative Code.

The City Treasurer has allocated within the Investment Program a maximum of five million dollars, of the combined portfolio for the Linked Banking Program or similar program(s) or activities to encourage community investment by financial institutions and to acknowledge and reward locally active banks that support the community's financial needs.

G. Authorized Financial Institutions and Direct Issuers

All transactions initiated on behalf of the Investment Program and City of Los Angeles shall be executed through either banks and securities, broker/dealers designated as "Primary Dealers" defined by the Federal Reserve Bank of New York as "banks and securities broker/dealers that trade in U.S. Government securities with the Federal Reserve Bank of New York" or direct issuers that directly issue their own securities which have been placed on the City's Approved List of Brokers/Dealers and Direct Issuers.

Transactions may be executed through secondary dealers subject to all the following conditions:

1. The broker/dealer must qualify under the SEC Rule 15C3-1 (uniform net capital rule).
2. The broker/dealer and the individual must be properly registered with the appropriate state and federal regulatory bodies.
3. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines.
4. Each broker/dealer will be evaluated on trade execution, accuracy and timeliness of information, and quality of service.

All broker/dealers will receive a copy of this Policy, a broker/dealer registration, and a list of those persons authorized to execute investment transactions.

H. Safekeeping and Custody

In accordance with California Government Code Section 53601, all security transactions, with the exception of collateralized and/or insured time deposits, State of California Local Agency Investment Fund (LAIF) and bank short-term investment funds (bank's overnight investment fund), shall be conducted on a Delivery-Versus-Payment (DVP) basis pursuant to an approved custodial safekeeping agreement. Securities will be held by a third party custodian designated by the City Treasurer and evidenced by safekeeping receipts.

I. Management Style and Strategy

This Policy describes the City's strategic investment objective, risk tolerance, and investment constraints. The City Treasurer or designee, at the City Treasurer's discretion, prepares an economic outlook and evaluates the capital markets environment. The investment programs reflect a common strategy that is based on conservative principles of fixed income portfolio management consistently applied in a disciplined fashion. The Office of Finance adopts Modern Portfolio Theory (MPT) which states preference for generation of maximum expected rate of return with an acceptable level of risk as described in Section V.

J. Approved Lists

The City Treasurer shall create and update Approved Lists of Authorized Broker/Dealers and Issuers (the Lists). Monthly, staff members shall submit and recommend any changes to the Lists on separate cover for approval by the City Treasurer.

K. Calculation of Earnings and Costs

The City Treasurer will develop a methodology for determining the costs of managing the investment portfolio. These costs include, but are not limited to, investment management, accounting for investment activity, custody of assets, managing and accounting for banking, receiving and remitting deposits, oversight controls, etc., that will be charged against the investment earnings based upon actual costs.

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IX. Reviewing, Monitoring and Reporting of the Portfolio

The City's Investment Advisor will prepare and present at least monthly a comprehensive review and evaluation of the transactions, positions, and performance of the Investment Program and compliance with the California Government Code, City Investment Policy and Investment Guidelines.

Monthly, the City Treasurer will provide to the City Council a detailed report on the Investment Program. The report will detail any funds under the management of contracting parties, security transactions, a statement of compliance to the policy, and a statement of the Investment Program's ability to meet the expected net expenditure requirements for the next six months.

X. Training and Continuing Education

The City strives for professionalism and accountability in the investment of its funds. In order to ensure the highest possible professional standards, the Finance Investment Officers are encouraged to complete at least 16 hours per year of continuing education programs related to cash and investment management.

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Appendix A
Comparison and Interpretation of Credit Ratings[1]

Long Term Debt Ratings

Rating Interpretation	Moody's	Standard & Poor's	Fitch
Best-quality grade	Aaa	AAA	AAA
High-quality grade	Aa1 Aa2 Aa3	AA+ AA AA-	AA+ AA AA-
Upper Medium Grade	A1 A2 A3	A+ A A-	A+ A A-
Medium Grade	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-
Speculative Grade	Ba1 Ba2 Ba3	BB+ BB BB-	BB+ BB BB-
Low Grade	B1 B2 B3	B+ B B-	B+ B B-
Poor Grade to Default	Caa	CCC+	CCC
In Poor Standing	- -	CCC CCC-	- -
Highly Speculative Default	Ca C	CC -	CC -
Default	- - -	- - D	DDD DD D

Short Term/Commercial Paper Investment Grade Ratings

Rating Interpretation	Moody's	Standard & Poor's	Fitch
Superior Capacity	P-1	A-1+/A-1	F1+/F1
Strong Capacity	P-2	A-2	F2
Acceptable Capacity	P-3	A-3	F3

Appendix B
GLOSSARY

BANKER'S ACCEPTANCE: A money market instrument created to facilitate international trade transactions. This instrument is highly liquid and safe because the risk of the trade transaction is transferred to the bank that "accepts" the obligation to pay the investor.

BANK DEPOSITS: C**o**llateral in the form of currency that may be in the form of demand accounts (checking) or investments in accounts that have a fixed term and negotiated rate of interest.

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 at which a buyer offers to buy a security.

BOND: A bond is essentially a loan made by an investor to a division of the government, a government agency, or a corporation. The bond is a promissory note to repay the loan in full at the end of a fixed time period. The date on which the principal must be repaid is the called the maturity date, or maturity. In addition, the issuer of the bond, that is, the agency or corporation receiving the loan proceeds and issuing the promissory note, agrees to make regular payments of interest at a rate initially stated on the bond. Bonds are rated according to many factors, including cost, degree of risk, and rate of income.

BROKER: A broker brings buyers and sellers together for a transaction for which the broker receives a commission. Brokers generally do not hold inventory or make a market for securities.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION (CDIAC): CDIAC provides information, education and technical assistance on public debt and investments to local public agencies and other public finance professionals.

CALLABLE SECURITIES: An investment security that contains an option allowing the issuer to retire the security prior to its final maturity date**.**

CALIFORNIA LOCAL AGENCY OBLIGATIONS: See Local Agency Bonds.

CAPITAL GAIN: The amount by which an asset's selling price exceeds its initial purchase price.

CAPITAL LOSS: The decrease in the value of an investment or asset below its initial purchase price.

CD (CERTIFICATE OF DEPOSIT): A CD is a note issued by a bank for a savings deposit that an individual agrees to leave invested in the bank for a certain term. At the end of this term, on the maturity date, the principal may either be paid to the individual or rolled over into another CD. Interest rates on CDs between banks are competitive. Monies deposited into a CD are insured by the bank, thus they are a low-risk investment. Maturities may be as short as a few weeks or as long as several years. Most banks set heavy penalties for premature withdrawal of monies from a CD. Large-denomination CD's are typically negotiable.

CFA INSTITUTE: CFA Institute is the global, not-for-profit association of investment professionals that awards the CFA (Chatered Financial Analyst®) designation. The Institute promotes the highest ethical standards and offers a range of educational opportunities online and around the world.

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.

COLLATERALIZATION: Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

COMMERCIAL PAPER: The short-term unsecured debt of corporations or companies**.**

CONVEXITY: Measures the rate of change in a bond's sensitivity to interest rate moves. It's the rate of change in a bond's duration (price volatility).

COUNTY POOLS: See County Pooled Investment Fund.

COUNTY POOLED INVESTMENT FUNDS: The aggregate of all funds from public agencies placed in the custody of the county treasurer or chief finance officer for investment and reinvestment.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

CREDIT RISK: The likelihood that an issuer will be unable to make scheduled payments of interest and principal on an outstanding obligation.

CUSTODIAN: A financial institution, typically a bank, providing service to customers for a fee whereby securities and valuables of all types and descriptions are held by the bank in the customer's name. The custodian does not have fiduciary responsibilities as is the case with trust accounts.

DEALER: A dealer, as opposed to a broker, acts as a principal in security transactions, selling securities from, and buying securities for his/her own position.

DEFAULT: To default is to fail to repay principal or make timely interest payments on a bond or other debt investment security. Also, a default is a breach of or failure to fulfill the terms of a note or contract.

DELIVERY VERSUS 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.

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

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

FIDUCIARY: An individual who holds something in trust for another and bears liability for its safekeeping.

FLOATING RATE INVESTMENTS: Notes whose interest rate is adjusted according to the interest rates of other financial instruments. These instruments provide protection against rising interest rates, but pay lower yield than fixed rate notes.

FUTURES: Commodities, which are sold to be delivered at a future date.

INVERSE FLOATING RATE INVESTMENTS: Variable-rate notes (such as inverse floating rate notes) whose coupon and value increase as interest rates decrease.

INTEREST ONLY STRIPs: Securities with cash flow based entirely on the monthly interest payments received from a mortgage pool.

INVESTMENT PROGRAM: The process of modern portfolio management. The process includes establishing investment policy, analysis of the economic and capital markets environment, portfolio monitoring and rebalancing, and measuring performance.

LOCAL AGENCY BONDS: These bonds are issued by a county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

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.

LIQUIDITY: The ease with which investments can be converted to cash at their present market value. Liquidity is significantly affected by the number of buyers and sellers trading a given security and the number of units of the security available for trading.

MARKET RISK: Market risk is the risk that investments will change in value based on changes in general market prices.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase–reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MEDIUM TERM NOTES (MTN): Unsecured, investment-grade senior debt securities of major corporations that are sold either on 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.

MODERN PORTFOLIO THEORY: overall investment strategy that seeks to construct an optimal portfolio by considering the relationship between risk and return. This theory recommends that the risk of a particular investment should not be looked at on a standalone basis, but rather in relation to how that particular investment's price varies in relation to the variation in price of the market portfolio. The theory goes on to state that given an investor's preferred level of risk, a particular portfolio can be constructed that maximizes expected return for that level of risk.

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

MORTGAGE BACKED SECURITIES: A debt instrument with a pool of real estate loans as the underlying collateral. The mortgage payments of the real estate assets are used to pay interest and principal on the bonds.

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.

MUTUAL FUNDS: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. **Money market mutual funds** invest exclusively in short term (one day to one year) debt obligations such as Treasury bills, certificates of deposit, and commercial paper. The principal objective is the preservation of capital and generation of current income.

OFFER: The price asked by a seller of securities. See Asked and Bid.

OPTION: A contract that provides the right, but not the obligation, to buy or to sell a specific amount of a specific security within a predetermined time period. A call option provides the right to buy the underlying security. A put option provides the right to sell the underlying security. The seller of the contracts is called the writer.

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.

PRINCIPAL ONLY STRIPs: Securities with cash flow based entirely on the monthly principal payments received from a mortgage pool.

RANGE NOTES: A range note is a bond that pays interest if a specified interest rate remains above or below a certain level and/or remains within a certain range.

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, Repo): 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 customers typically rendered by brokerage firms whereby securities and valuables of all types and descriptions are held on behalf of the client. Securities are typically not held in the name of the client, unlike custodial accounts.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION (SEC): A federal government agency comprised of five commissioners appointed by the President and approved by the Senate. The SEC was established to protect the individual investor from fraud and malpractice in the marketplace. The Commission oversees and regulates the activities of registered investment advisers, stock and bond markets, broker/dealers, and mutual funds.

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

STATE OBLIGATIONS: Registered treasury notes or bonds of any of the other 49 United 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 United States, in addition to California.

STRIPs: Bonds, usually issued by the U.S. Treasury, whose two components, interest and repayment of principal, are separated and sold individually as zero-coupon bonds. Strips are an acronym for Separate Trading of Registered Interest and Principal of Securities.

TRUSTEE: An individual or organization, which holds or manages and invests assets for the benefit of another. The trustee is legally obliged to make all trust-related decisions with the trustee's interests in mind, and may be liable for damages in the event of not doing so.

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.

U.S. AGENCY OBLIGATIONS: Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments. The obligations are issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. Issuers include, but may not be limited to, Fannie Mae, Farmer Mac, Federal Farm Credit Banks, Freddie Mac, Federal Home Loan Banks, Financing Corporation, Tennessee Valley Authority, Resolution Trust Funding Corporation.

U.S. TREASURY OBLIGATIONS (TREASURIES): 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 (T-bills). The Treasury currently issues three-month and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth cash flows.

Treasury Notes: All securities issued with initial maturities of two to ten years are called Treasury Notes (T-notes), and pay interest semi-annually.

Treasury Bonds: All securities issued with initial maturities greater than ten years are called Treasury Bonds (T-bonds). Like Treasury Notes, they pay interest semi-annually.

YIELD: The rate of annual income return on an investment, expressed as a percentage. Yield does not include capital gains. (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.

ZERO-COUPON BOND: A bond on which interest is not payable until maturity (or earlier redemption), but compounds periodically to accumulate to a stated maturity amount. Zero-coupon bonds are typically issued at a discount and repaid at par upon maturity.