# 2023-2024

# City of Fresno

# Investment Policy

**Effective July 1, 2023**

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**Santino Danisi**

**Controller/Finance Director/(ex-officio)Treasurer**

# PREFACE

"I'm not as concerned about the return on my principal as I am about the return of my principal."

Will Rogers

It is the Policy of the City of Fresno, that giving due regard to the safety and risk of investment, all available funds shall be managed in conformance with these legal and administrative guidelines (the Policy) and, to the maximum extent possible, surplus funds shall be invested at the highest rates obtainable at the time of investment. Adequate operating funds shall be maintained in a depository institution(s) which affords the City safety with respect to its funds, as well as the ability to meet all the City's cash receipt and disbursement needs.

Effective cash management is recognized as essential to good fiscal management. A conscientious cash management and investment policy will be adopted to meet the City's financial obligations and take advantage of investment interest as available and material revenue for all operating and capital funds. The City's Portfolio shall be designed and managed in a manner responsive to the public trust and consistent with State and local law.

Investments of surplus funds shall be made with the primary objectives of:

- Compliance with all legal requirements
- Preservation of capital and protection of principal
- Maintenance of liquidity essential to fund operations
- Maximization of return on the Portfolio
- Development of the local economy

Earnings from investments will be used in a manner that will best serve the interests of the citizens of Fresno.

(Note: A Glossary of cash management and investment terms is included in Appendix C.)

**TABLE OF CONTENTS**

EXECUTIVE SUMMARY

- Investments of surplus funds and deposits of operating funds by local agencies in California are primarily governed by State laws found in Government Code (GC) Section 53600, et.seq.

- GC Section 53646 encourages, and Fresno Municipal Code (FMC) 7-104 requires, that Council annually adopt a Policy applicable to City of Fresno investments of surplus funds and deposits of operating funds.

- In addition, the Governmental Accounting Standards Board (GASB) requires extensive reporting and disclosure regarding the City's investment program through GASB Statements 3, 31, 40, and 72.

- As stated in the Policy, the objectives of the City's investments program for surplus funds are (1) safety of capital (2) adequate liquidity (3) market yield and (4) local economic development.

- Legal compliance is assured because the investments authorized for the City are either approved with the same parameters permitted by State law or have more stringent parameters. For example, State law has no limits on the number of Agency Notes. The City's Policy limits no more than 70 percent of the Portfolio to Agency Notes, with no more than 50 percent for any one issuer.

- Safety of capital is assured by managing financial credit risk (the risk of default by the issuer), custodial credit risk, (the risk of losing investments not held in the City's name), concentration of credit risk, (the risk of not adequately diversifying), interest rate risk (the risk of declines in market value when interest rates rise), and foreign currency risk (the risk of loss due to fluctuations in the value of foreign debt instruments.)

- Financial credit risk is managed by limiting investment choices to those authorized by State law. Custodial risk is managed by requiring a third-party custodian for all investments. Concentration of credit risk is managed by assuring adequate diversification as noted above, for example, with regard to Agency Notes. Interest rate risk is managed by limiting the portfolio to a weighted average maturity not to exceed three years. Foreign currency risk is managed by limiting investments to only dollar denominated instruments.

- Adequate liquidity is assured by maintaining an adequate balance of operating funds in the City's bank account, and with respect to surplus funds, by owning marketable securities which can easily be liquidated or sold, by maintaining a maturity schedule that assures a regular stream of cash flow, and by maintaining a sufficient amount of funds in immediately liquid accounts such as the Local Agency Investment Fund (LAIF).

- Investment return objectives are achieved by analysis of the market and the investments available, by maintaining an active style of investment management, by swapping bonds if advantageous, by requiring competitive bidding and negotiation when appropriate, and by engaging in securities lending if appropriate.

- The objective of local economic development is pursued by allowing up to $15,000,000 of the Portfolio for purchases of Certificates of Deposit from local financial institutions.

- The cash management function is organized by the City (ex-officio) Treasurer ("the Treasurer"), who also serves as the City's Controller. The Treasurer sets overall policy and objectives for the cash management program. The Treasury Officer and Treasury staff, determine and take action to meet the City's operating fund needs. If surplus funds are available, the Treasury Officer selects investments, with the approval of the Treasurer or Assistant Controller. One of the Treasury staff other than the Treasury Officer performs the accounting for the Portfolio and prepares monthly reports of investment activity. This segregation of duties is integral to strong internal control in the cash management program.

- The Treasury Officer, with the advice and direction of the Treasurer, performs the day-to-day management of the Portfolio. The markets and economic activity are monitored daily along with possible investments and actions that would benefit the Portfolio. Data are analyzed and investment decisions are made by the Treasury Officer and approved by the Treasurer or Assistant Controller.

- Reports of the results of the cash management program are made monthly. The Reports detail the disposition of all the City's surplus funds. Reports show the categories of the investments. Holdings in the Portfolio, including the par, book, and market value of each investment are also shown. The Reports also show the asset mix in the Portfolio, the range of maturities and a comparison of earned interest for the current month and earned interest for the fiscal year to prior year numbers.

- After adoption of this Policy by Council, any material changes must be approved by Council.

I. INVESTMENT RESONSIBILITIES

A. Legal Requirements

The primary sources of law regarding the investment practices and procedures for the City of Fresno are laws passed by the State of California, the Fresno City Charter and the FMC. Federal law and Fresno County ordinances are not generally a source of direction with regard to the management of the City of Fresno deposit and investment program.

The State has declared its intention to govern investment and deposit activity for local agencies under various California GC Sections. GC Sections 53630.1 and 53600.6 state that: “The Legislature hereby finds that the solvency and creditworthiness of each individual local agency can impact the solvency and creditworthiness of the state and other local agencies within the state. Therefore, to protect the solvency and creditworthiness of the state and all its political subdivisions, the Legislature hereby declares that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern.”

1. Investment Authority

a. State Law

GC Section 41001 identifies the city treasurer as the city official responsible for receiving and safekeeping all money received as treasurer. GC Section 41006 authorizes the city treasurer to appoint “deputies” for whose acts the treasurer and their bondsmen are responsible. GC Section 53601 authorizes the legislative body of a local agency to invest “surplus funds,” money not required for the immediate needs of the local agency. GC 53607 authorizes the City Council to delegate its authority to invest to the treasurer of the local agency for a one-year period.

b. City Law

Section 804 of the Charter of the City of Fresno creates the position of City Controller, who shall be appointed by the Chief Administrative Officer with the approval of the City Council. The Controller is to have charge of the financial affairs of the City under the Chief Administrative Officer.

Section 7-901 of the FMC appoints the Controller as the (ex-officio) Treasurer of the City and requires that all funds received by the City be promptly paid into the City’s Treasury.

2. Investment Policy

a. State Law

GC Section 53646 encourages local agencies to prepare an annual investment policy to be submitted to the agency’s legislative body for its consideration at a public meeting.

b. City Law

FMC Section 7-104 requires that the Controller shall annually prepare and submit an investment policy to the City Council for its approval. The policy is to include a policy statement, policy scope, policy objectives, and various other investment provisions addressing authorized investments, portfolio diversification, internal controls and other requirements as deemed appropriate by the Controller.

3. Investment Reporting

a. State Law

GC Section 53646 encourages that a quarterly investment report be prepared by the treasurer or chief financial officer and submitted to the City Council within 30 days following the end of the quarter covered by the report. GC 53607 requires that the treasurer make a monthly report of investment transactions to the City Council.

b. City Law

Although there is no legal requirement set forth in the City Charter or the FMC to do so, the Treasurer of the City of Fresno follows State law and submits monthly reports of investment activity to the City Council, in accordance with Section VI.A. of this Policy within 30 days after the end of the month covered by the report or as soon thereafter as the month is closed and it is practicable.

4. Authorized Investments

a. State Law

GC Section 53601 establishes the types of investments allowed, the maximum allowable percentage limits for each investment type, acceptable maturities, quality of ratings allowed, and maximum allowable percentage by issuer. GC Section 53601.8 provides for the investment of a portion of the City's surplus funds in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit. In addition, GC 16429.1 authorizes local agencies like the City to invest monies in the LAIF established by the State Treasurer for the benefit of local agencies.

b. City Law

The City Charter and municipal code do not deal with the types of investments permitted for the City of Fresno. Through this Policy, the City of Fresno conforms to State Law with regard to authorized investments. (See Section III.A.1. Also, Appendix D contains a comparison of State and City authorized investments).

c. Grandfather Clause

Any investment held by the City of Fresno at the time this Policy is adopted shall not be sold to conform to any part of this Policy unless its sale is judged to be prudent by the City Treasurer.

5. Collateral Requirements

a. State Law

There are no collateral requirements for investments of surplus funds held in the City's treasury in accordance with GC Section 53601. GC Section 53601.8 (c) requires that the full amount of principal and interest accrued on local agency funds invested in certificates of deposit in accordance with the provisions of GC Section 53601.8 shall at all times be insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).

GC Section 53635.2 requires that funds not invested in accordance with GC Section 53601, should "as far as possible" be deposited in eligible financial institutions in California. This money constitutes the City's operating funds. For public operating funds in demand deposit accounts with financial institutions, GC Section 53652 requires that such funds must be collateralized by the institution with a market value of eligible securities listed in GC Section 53651, in excess of the total amount of all deposits secured by such eligible securities, by varying percentage amounts, depending on the type of security. Depository institutions are required to contribute such collateral to a pool of securities held in the name of and administered by the California Collateral Pool Administrator, an official with the California Department of Financial Institutions, and held by the Federal Reserve Bank as custodian.

b. City Law

FMC Section 7-101 governs the collection and custody of City moneys and requires all such funds to be paid promptly into the City's Treasury, for deposit into financial institutions as determined to be most advantageous to the City by the Controller, with the approval of the City Council.

6. Prudent Person Rule

a. State Law

GC Section 53600.3 identifies those who invest money on behalf of local agencies as trustees and therefore fiduciaries subject to the prudent investor standard. A trustee is required to survey general economic conditions and the anticipated needs of the agency, and act in accordance with a level of care, skill, prudence and diligence under the circumstances then prevailing, in order to safeguard the principal of the investment and maintain the liquidity needs of the agency.

b. City Law

The City Charter and the FMC do not specifically address the requirement for City personnel engaged in the investment process to act in accordance with the prudent person rule. However, this Policy does require the Prudent Person standard of behavior with respect to the City's Investment Portfolio. (See Section I.C.1.)

7. Investment Objectives

a. State Law

GC Section 53600.5 requires that a trustee investing public funds must have the following objectives with regard to investment activities in the priority stated: Safety of principal, (First priority), Liquidity needs of the local agency (Second priority), and a Return on the funds under his/her control (Third priority). Also, with regard to the Return on investments, GC Section 53601.6(b) prohibits a local agency from investing funds in any security that could result in a zero-interest accrual if held until maturity.

b. City Law

The City Charter and the FMC do not specifically note these requirements, but this Policy states that Safety, Liquidity and Yield constitute the first three objectives of the City's investment program. In addition, this Policy prohibits investing in any investment that could result in a zero-interest accrual. (See Section III.)

8. Securities Dealers

a. State Law

GC Section 53601.5 requires that any investments purchased by a local agency, must be obtained from either the issuer, or, if in the secondary market, from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporation Code, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association (as defined by Section 5102 of the Financial Code) or from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank.

b. City Law

The Charter and the FMC do not directly cover the requirements for broker-dealers, but this Policy conforms to State Law with regard to those who wish to maintain a broker-dealer relationship with the City. (See Section V.C.)

9. Prohibited Investments

   a. State Law

      GC Section 53601.6 (a) prohibits a local agency from investing any public funds in inverse floaters, range notes, or mortgage-derived, interest-only strips.

   b. City Law

      While the Charter and the FMC do not specifically deal with this issue, this Policy does conform to State Law and prohibits investment in inverse floaters, range notes, or mortgage-derived, interest-only strips. (See Section III.A.1.b.)

10. Trading Securities

   a. State Law

      GC Sections 53603, 53604, and 53605 combined permit an investment strategy other than "buy and hold." These Code sections allow the purchase of an investment when issued or in the market, after it has been issued, and they also permit selling or exchanging an investment prior to maturity, in order to raise capital for the original purpose of the investment, or as otherwise desired.

   b. City Law

      The Charter and the FMC do not discuss the circumstances under which investments will be bought and sold, but this Policy follows State Law in permitting the City to trade securities if it is advantageous to the City to do so, and will not constitute a deviation from other Sections of this Policy. (See Sections III.C. and V.E.)

11. Safekeeping

   a. State Law

      GC Section 53608 permits the safekeeping function for a local agency to be delegated by the City Council to the City Treasurer. Securities may be deposited in a number of institutions including a Federal or State association (as defined by Section 5102 of the Financial Code), a trust company or a State or national bank located in California, with any branch of the Federal Reserve Bank, or with any State or national bank located in a (Federal) reserve city. By implication, what is not permitted is the deposit of securities with a "counterparty" or the broker-dealer from whom the securities were purchased.

   b. City Law

      Neither the Charter nor the FMC prescribe standards regarding the safekeeping of securities. However, this Policy conforms to State Law and requires City securities to be held by a third party custodian. (See Section III.A.2.)

B. Scope

1. Applicability

a. Investment Pool

This Policy applies to all monies under the control of the Treasurer of the City of Fresno, normally used in the day-to-day operations of the City, or which are not required for immediate use. The former funds are defined herein as "operating funds." The latter funds are referred to in GC Section 53601 as "surplus funds." Operating funds shall be deposited in the City's demand deposit account (checking account) with its depository institution, in accordance with Section I.A.5. of this Policy. The amount of funds kept on deposit in this account shall be determined by the Treasurer, and the Treasurer's deputies, to meet the demands of the City's daily operations. This practice meets the responsibility delegated to the Treasurer by the Fresno City Council, in accordance with Section I.A.1.a. and Section IV.B. of this Policy.

In meeting this same responsibility with respect to surplus funds, all such monies entrusted to the Treasurer will be pooled in a diversified portfolio (Investment Pool or the Portfolio). The City Treasurer and staff will monitor economic and other conditions, and manage the Portfolio on an active basis.

b. Fund Accounting

The monies covered by this Policy are accounted for in the City's General Ledger, and reported in the City's Annual Comprehensive Financial Report (ACFR). These financial assets are accounted for by means of fund accounting, in accordance with Generally Accepted Accounting Principles (GAAP) for Governmental entities. The Fund types used to account for them are:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds
- Internal Service Funds
- Fiduciary-Agency Funds

2. Exclusions

a. Deferred Compensation Funds

The assets and investments comprising the Deferred Compensation Fund are specifically excluded from coverage by this Policy. Investment of these funds is directed by each employee in accordance with the rules of the Deferred Compensation Plan of the City.

b. Successor Agency to the Redevelopment Agency of the City of Fresno

In addition, this Policy is not applicable to funds held by the Successor Agency to the Redevelopment Agency (RDA) of the City of Fresno. Although a component unit of the City of Fresno, the RDA administers its funds separately from the City, and does not come under the authority of the City Treasurer.

c. Retirement Systems

Also excluded are all investments of the City of Fresno Retirement Systems, including the assets held in the General Employees System, and both Police and Fire Systems. These assets, both City and employee contributions, are governed by and are under the control of the Retirement Systems Board of Directors.

d. Bond or Loan Proceeds

Bond or other proceeds resulting from the City's indebtedness, held by a trustee on behalf of the City's creditors, or in accordance with federal requirements, typically to be used in conjunction with the construction of various capital projects, are also specifically excluded from the scope of this Policy. Furthermore, monies held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, known as "Reserve Funds," or obligations under a lease, installment sale, or other agreement of the City, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements are also excluded from the scope of this Policy. Pursuant to GC Section 53601(m), such funds may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the City in providing for the issuance, rather than through the application of this Policy.

C. Standards of Conduct

1. Prudent Investor Rule

The standard of prudence to be used by investment officials for the City of Fresno shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Per GC Section 53600.3, the "prudent person" standard states that "When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency." Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

2. Ethical Standards

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Officers and employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

3. Conflicts of Interest, Gifts, Gratuities

The City fully supports the disclosure process required by the Political Reform Act and each individual involved in the City's investment program shall be required to complete Form 700, Statement of Economic Interests, annually, in accordance with GC Sections 87100-87350. Employees and investment officers shall disclose any material financial interests in firms that conduct business within the City's jurisdiction, and shall further disclose any personal financial/investment positions that could be related to the performance of the City's Portfolio. A single gift or multiple gifts from a single donor, whose value exceeds $50 during a calendar year must be reported. Also, the limit on gifts or gratuities from a single source during a single year is a total of $500. These limits shall be strictly observed.

## II. INVESTMENT OBJECTIVES

### A. Compliance with Legal and Professional Direction

In conducting its investment program, the City shall comply with all State and City legal directives, conform to GAAP as promulgated by the GASB, particularly GASB Statements 3, 31, 40, and 72, and avail itself of guidance furnished by governmental and industry professional organizations, including but not limited to the California Debt and Investment Advisory Commission (CDIAC), the Government Finance Officers Association (GFOA), the California Municipal Treasurer's Association (CMTA), the California Society of Municipal Finance Officers (CSMFO), the Municipal Treasurers Association of the United States and Canada (MTAUS&C), the Association of Finance Professionals (AFP) and the Public Treasury Institute (PTI). It shall be the Policy of the City to ensure that staff involved in the investment program have regular training and adequate information resources provided by the preceding governmental and industry professional organizations.

### B. Safety of Capital

The City of Fresno's first and most important objective in conducting its investment program is to ensure the safety of principal, considering the portfolio as a whole. In a well-diversified portfolio, at any particular point in time, security valuations may be impacted either favorably or unfavorably by changes in interest rates and economic conditions. Specific policies to ensure the safety of principal are presented in Section III.A. "Policies to Ensure Legal Compliance and Safety of Principal."

C. Maintenance of Adequate Liquidity

The City's Investment Portfolio must be structured in a manner that will provide the liquidity necessary to pay obligations as they become due. This is the second objective of the investment program. Specific policies by which the City ensures the maintenance of adequate liquidity are described in Section III.B. "Policies to Ensure Adequate Liquidity."

D. Return on Investments

The City shall seek to optimize return on investments within the constraints of safety and liquidity. This third objective of the City investment program shall be to achieve a rate of return on funds that is comparable to that achieved by LAIF. Specific policies regarding investment rate of return are presented in Section III.C. "Policies to Achieve Investment Return Objectives."

E. Local Development Program

Fourth, the City of Fresno seeks to promote local economic development through various programs and activities. Included is the Treasurer's program of placing funds with local financial institutions who demonstrate a commitment to private economic growth, local housing investment and other community services. While investment in local financial institutions may result in a lower net yield for the Portfolio, the benefit to be derived is a potential expansion of the City's tax base. Specific policies regarding local investments are presented in Section III.D, "Policies to Promote Local Economic Development."

## III. INVESTMENT POLICIES

A. Policies to Ensure Legal Compliance and Safety of Principal

Ensuring compliance with State law and safety of principal are accomplished by minimizing three types of risk: credit risk, interest rate risk and foreign currency risk. There are three sub-types of credit risk: financial risk, custodial credit risk, and concentration of credit risk. Financial risk is the risk that the issuer of an investment instrument will default on it and not pay the debt. Custodial credit risk is the risk of losing an ownership interest in a security because it was held in the name of the selling firm in the transaction, and that firm experienced financial stress, making access to the security impossible. Concentration of credit risk refers to the risk of owning too many investments of one issuer. Interest rate risk is the risk of the loss of market value of an investment if interest rates should rise after the purchase. Foreign currency risk is the risk of the possible loss of an investment's value when it is converted from a foreign currency into U.S. dollars.

1. Managing Financial Credit Risk

a. Authorized Investments

The most effective method for minimizing the risk of default by an issuer is to invest in high quality obligations. Also, since these obligations are the only ones permitted by State law, investing in them is also the most effective way to maintain legal compliance. Therefore, it is the Policy of the City of Fresno to purchase only those obligations specified in GC Section 53601, GC Section 53601.8, and GC Section 16429.1. These are as follows:

(1.) City of Fresno bonds, including revenue bonds, maturing within five years of the date of purchase. There shall be no percentage limitation of the Portfolio that can be invested in this category.

(2.) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest, maturing within five years of the date of purchase. There shall be no percentage limitation of the Portfolio that can be invested in this category.

(3.) Registered California warrants, treasury notes or bonds, including revenue bonds maturing within five years of the date of purchase. There shall be no percentage limitation of the Portfolio that can be invested in this category.

(4.) 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, maturing within five years of the date of purchase. There shall be no percentage limitation of the Portfolio that can be invested in this category.

(5.) Bonds, notes, warrants or other evidences of indebtedness of any local agency within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency, maturing within five years of the date of purchase. There shall be no percentage limitation of the Portfolio that can be invested in this category.

(6.) Federal Agency or United States Government-Sponsored Enterprise obligations, participations, or other instruments including those issued by or fully guaranteed as to principal and interest by Federal agencies or United State Government-Sponsored Enterprises, maturing within five years of the date of purchase. These include, among others, issues of the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Housing Administration (FHA). According to the Government Code, there is no percentage limitation of the Portfolio that can be invested in this category. However, the City Policy is that no more than 70 percent of the City Portfolio shall be composed of investments in this category. Likewise, although the Government Code has no limitation on the percentage of the Portfolio that can be invested in any one of the issuers referenced in this paragraph, the Policy of the City of Fresno is to limit the percentage of the City's Portfolio that can be invested in any one of these issuers to 50 percent.

(7.) Banker's Acceptances are bills of exchange or time drafts drawn on and accepted by a commercial bank. Banker's Acceptances may not exceed 180 days to maturity at the time of purchase. No more than 40 percent of the Portfolio may be invested in this category, with no more than 30 percent of the Portfolio invested in the obligations of any one bank. Only Banker's Acceptances eligible for purchase by the Federal Reserve System meet the eligibility requirements for investment in the Portfolio.

(8.) Commercial Paper ranked "P-1" by Moody's Investor Services or "A-1" by Standard and Poor's and issued by a domestic corporation having assets in excess of $500,000,000 and having an "A" or better rating on its long-term debentures as provided by Moody's or Standard and Poor's. Purchases of eligible commercial paper may not exceed 25 percent of the Portfolio, nor have a term to maturity at time of purchase in excess of 270 days. The City is limited to purchasing no more than 10 percent of the outstanding commercial paper of any one issuer.

(9.) Negotiable Certificates of Deposit issued by nationally or State-chartered banks, savings associations, or a federal association (as defined by Section 5102 of the California Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank, not to exceed the net equity of the financial institution, and not to exceed a total concentration of 30 percent of the Portfolio and maturing within five years of the date of purchase. These are not Time Deposits that would ordinarily be purchased from banks (See Section III.D.4. for information about the City's Time Deposit investments.) Also, Negotiable CDs cannot be purchased from institutions for which City investment officials serve as members of the governing board.

(10.) Investments in repurchase agreements, reverse repurchase agreements, or securities lending agreements of any securities authorized by this Policy. The term for repurchase agreements may not exceed one year, and the market value of the underlying securities must maintain a value of 102 percent or greater of the funds borrowed against those securities. Conditions for reverse repurchase agreements and securities lending agreements are that the securities to be sold or lent must have been owned for a minimum of 30 days prior to the transaction, the total amount of securities must not exceed 20 percent of the Portfolio, the agreement must not exceed a term of 92 days, unless there is a guaranteed spread for the entire period, the borrowed funds will not be invested for more than 92 days, unless, again, there is a guaranteed spread for the entire period, and, finally, these agreements may only be made with the prior approval of the City Council.

(11.) Medium-term notes are all corporate and depository institution debt securities with a maximum of five years or less remaining to the date of maturity at the time of purchase, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment shall be rated in a rating category of "A" or better by a nationally recognized rating service. No more than 30 percent of the Portfolio may be invested in medium-term notes. Likewise, the State limits investments in the medium-term notes of a single issuer to no more than 30 percent of the Portfolio. However, this Policy further limits investment in the medium-term notes of any one issuer to no more than 20 percent of the Portfolio. The limit on the amount of a single issuer's debt which may be purchased remains the same as that of the State, 100 percent.

(12.) Shares of beneficial interest issued by diversified management companies, otherwise known as Mutual Funds, who invest in the securities and obligations authorized by this Policy. To be eligible for investment, these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by two of the largest nationally recognized rating services, or (2) have an investment adviser registered with the Securities and Exchange Commission with at least five years' experience investing in the securities authorized by this Policy, and with assets under management in excess of $500,000,000. Investment in any one Mutual Fund shall not exceed 10 percent of the Portfolio, while the total of all Mutual Fund investments shall not exceed 20 percent of the Portfolio. Also, the purchase price of shares shall not include any commission that the companies may charge.

(13.) Shares of beneficial interest issued by diversified management companies that are Money Market Funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. To be eligible for investment, these companies shall either (1) attain the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations, or (2) retain 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 $500,000,000. Investment in Money Market Funds shall not exceed 20 percent of the Portfolio, and shall not include in the purchase price of shares any commission that the companies may charge.

(14.) Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a minimum of five years' maturity at the time of purchase. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service. Purchase of securities authorized by this Policy may not exceed 20 percent of the Portfolio.

(15.) Shares of beneficial interest issued by a joint powers authority organized pursuant to GC Section 6509.7 that invests in the securities and obligations authorized in paragraphs (1.) to (14.), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment advisor that meets all of the following criteria: (i) the adviser is registered or exempt from registration with the Securities and Exchange Commission (ii) the adviser has not less than five years of experience investing in the securities and obligations authorized in paragraphs (1.) to (14.), inclusive, and (iii) the adviser has assets under management in excess of five hundred million dollars ($500,000,000). In accordance with State Law, there are no limits on the percentage of the Portfolio that may be invested in these shares.

(16.) Deposits made with a "selected" depository institution, in accordance with GC Section 53601.8, that uses a private entity that assists in the placement of certificates of deposit with one or more commercial banks, savings banks, savings and loan associations, or credit unions. Such deposits shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration. The selected depository institution shall serve as custodian for each certificate of deposit that is issued with placement service for the local agency's account.

(17.) Deposits in LAIF, up to the maximum permitted by the State Treasurer, currently $75,000,000 per account, for the purpose of investment. The City considers LAIF to be an external investment pool subject to the reporting requirements of GASB Statement 31, which requires that LAIF deposits be reported at fair market value.

(18.) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated "AA" or better by an NRSRO and shall not exceed 30 percent of the Portfolio.

b. Prohibited Investments

(1.) The City shall not invest any funds in investment instruments not listed in Section III.A.1.a.

(2.) The City shall not invest any funds in those investment instruments identified as "inverse floaters," "range notes," or "mortgage-derived, interest-only strips."

(3.) The City shall not invest any funds in any security that could result in zero interest accrual if held to maturity.

2. Managing Custodial Credit Risk

To protect against fraud, embezzlement, or potential losses resulting from the financial collapse of securities dealers, all securities owned by the City shall be held in the name of the City for safekeeping by a third-party bank trust department, acting as agent for the City under the terms of a custody agreement or professional services agreement, executed by the bank and the City. All securities will be purchased and delivered using standard delivery-versus-payment (DVP) procedures through the City's safekeeping agent. No outside broker/dealer or advisor may have access to City funds, accounts or investments, and no direct transfers of funds to an outside broker/dealer are permitted. Only indirect transfers may be made, through the City's safekeeping agent.

Upon purchase, sale, or maturity of investment securities, standing settlement instructions are provided to the servicing banks and broker/dealers involved in the transactions. Adherence to these standing settlement instructions ensures accurate and timely settlement of investment security transactions. Standing settlement instructions are restricted in nature, ensuring investment settlements are with established institutions.

Deposits with financial institutions, and with LAIF, in accordance with GC Section 53601.8, GC Section 53635.2 and GC Section 16429.1, shall be evidenced by a certificate or official statement of the City's account, issued by the financial institution or by LAIF, and retained in possession of the City.

3. Managing Concentration of Credit Risk

The City believes that the most important means for ensuring safety of principal consists of purchasing investments of high credit quality, namely, those listed in Section III.A.1.a. At the same time, the City believes in the importance of a well-diversified Portfolio. It is the policy of the City to diversify its Investment Portfolio so that reliance on any one issuer or broker-dealer will not place an undue financial burden on the City. Accordingly, the permitted concentrations of investments, as a percentage of the Portfolio and per individual issuer, are as indicated in Section III.A.1.a.. They are also presented in a table in Appendix D, which compares them with the limits imposed by the State.

4. Managing Interest Rate Risk

Interest rate risk is also referred to as "market risk." It is the risk that, when selling an investment in the Portfolio, the price and the proceeds received will be less than the purchase price and amount invested. This results in the erosion of principal, or the realization of a capital loss. The longer the maturity date of bonds, the greater the price volatility, and the greater is the risk of principal erosion or selling the bond at a loss. Therefore, it is the City's Policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates. In no event will the City exceed the guidelines established by State law and invest in any security whose maturity date at the time of purchase is in excess of five years. In addition, the City manages interest rate risk by measuring the weighted average maturity of the Portfolio as a method of gauging the degree of interest rate risk to which the Portfolio is exposed. The weighted average maturity is a mathematical calculation wherein the average of the number of days or years to the maturity dates of all the investments in the Portfolio is weighted by the amounts of each investment. The greater the amount of the investment, the greater the role it plays in determining the average number of days to maturity. For the City of Fresno, the weighted average maturity of its Portfolio shall not exceed three years. By maintaining the weighted average maturity of the Portfolio below three years, the City successfully minimizes potential losses from interest rate increases.

5. Managing Foreign Currency Risk

   The City only invests in U.S. dollar denominated obligations. This successfully eliminates all risk of principal erosion due to fluctuations in the values of foreign currencies.

B. Policies to Ensure Adequate Liquidity

1. Depository Balances

   On a daily basis, the Treasurer and Treasury Deputies shall review the status of the City's demand deposit account, the expected inflows of cash from various sources, and the expected uses of cash for the day. The amount of funds needed for daily operations is determined, as is the amount of funds available to meet expected requirements. As a general rule, staff believes that an average balance of $15,000,000 in the City's bank account is a reasonable target depository balance to meet operating fund requirements on any given day. The difference between expected sources and uses of cash determines whether there is a need for additional operating funds or there are surplus funds available for investment. Based on this analysis, the Treasurer and Treasury Staff seek to generate additional cash inflows or surveys the financial markets for suitable investments. In achieving the former, staff may determine that selling an investment is the most advantageous course to take, or selling shares in a money market fund, or LAIF. In achieving the latter, staff may consult with broker-dealers, review the financial markets via the news media or email communications, or conduct research via the City's financial subscription service. At all times, staff shall endeavor to achieve a balance ensuring that operating funds remain sufficient to meet the City's obligations, while any surplus funds are invested to achieve a financial return consistent with this Policy.

2. Repurchase Agreement Maturities

   Because no secondary market exists for repurchase agreements, the maximum maturity for repurchase agreements in the Portfolio is one year.

3. Security Marketability

Liquidity is very closely correlated with the marketability of investments in the Portfolio. Liquidity can be defined as the ability to sell an investment at or near the original purchase price paid for it, whenever desired. This can only occur if there is an active market for the type of security to be sold. Such a market only exists for high quality types of investments. Thus, in addition to the objectives of legality and safety, the City also ensures adequate liquidity by investing only in obligations permitted by GC 53601, GC 53601.8, and GC 16429.1 as described above in Section III.A.1.a. Authorized Investments.

4. Scheduling Maturities Or Maintaining A "Barbell"

The Policy of the City is to maintain a schedule of maturities such that cash flow through maturities occurs in a manner adequate to fund City operations. As an alternative strategy, the City may maintain a "barbell" structure such that maturities are equally weighted toward a very short-term horizon (to provide liquidity) and a longer-term horizon (to provide higher yields). The Treasurer will determine which strategy will be most effective given current market conditions.

5. Investments in LAIF

While the City maintains a high-quality Portfolio, which will normally ensure the maintenance of adequate liquidity, either through a scheduled or "barbell" approach, the City must also be prepared for market aberrations which might serve to dampen liquidity, if only temporarily. Therefore, it is the Policy of the City to maintain an amount invested with LAIF that will provide adequate liquidity, as determined by the Treasurer, in the event that maturities in the Portfolio are not sufficient to fund operations, and securities cannot be sold to generate additional cash.

C. Policies To Achieve Investment Return Objectives

The policies set forth in this Section enable the City to achieve the yield objectives established for the Portfolio.

1. Yield Objective

The City's Portfolio is structured to attain a market-average rate of return through the ups and downs of various economic cycles. The performance measure used for the Portfolio is the yield achieved by the LAIF. This portfolio, managed by the California State Treasurer's Office, establishes a standard for public funds in California.

2. Portfolio Management Style

Management styles for fixed income portfolios range from a passive "buy and hold" approach to an extremely active "day trader" approach. It is the Policy of the City to manage the Portfolio in a semi-active style, in order to enhance the overall yield on the Portfolio. In employing a semi-active style, investments will not be purchased with the sole objective of holding them until maturity. Investments can and will be sold prior to maturity if advantageous to the City. At the same time, however, buying solely in order to arbitrage and resell the investment constitutes speculation, and this practice is expressly prohibited.

3. Portfolio Maturity Management

As stated in Sections III.A.4. and III.B.3., when structuring the maturity composition of the Portfolio it is the Policy of the City to minimize interest rate risk and ensure adequate liquidity. Likewise, it is City Policy to evaluate current and expected interest rate yields and to invest accordingly, recognizing that the longer the time remaining to maturity for a security, the greater the price fluctuation which could occur, given changes in economic conditions and interest rate levels.

4. Bond Swaps

The City takes advantage of security swap opportunities to improve Portfolio yield. A swap that improves Portfolio yield may be selected even if the transaction results initially in a loss. (See Section V.E.)

5. Competitive Bidding, Negotiation

It is recognized that competitive bidding and negotiation for lower prices are two techniques that can enhance overall Portfolio yields. It is the Policy of the City to utilize one or both techniques, depending on the circumstances surrounding the transaction, when obtaining offers for the purchase of securities, or bids for the sale of securities.

6. Securities Lending

a. Overview

A securities loan is a transaction in which the owner of a security (the City) agrees to lend a security to a borrower (broker/bank) under terms negotiated at the time of the loan. During the period that a security is out on loan, the lender continues to have all the benefits of ownership. All interest or dividend income belongs to the lender. During the term of the loan, the borrower (broker/bank) pays a fee or interest to the lender (the City). During the term of the loan, the borrower must post collateral in the form of either cash or direct U.S. government and agency securities. The required collateral will always be in excess of the borrowed amount and be monitored by both parties. The term of the loan can be as short as overnight but usually averages 5 to 10 days.

b. Policy

It is the City's Policy to enter into a securities lending program to enhance investment return. Securities lending will only be transacted with a written agreement approved by the City Attorney. The written agreement will detail:

(1.) Acceptable types of collateral

(2.) Standards of collateral custody and control

(3.) Collateral valuation and initial margin

(4.) Accrued interest, mark-to-market, and margin calls

(5.) Method for transmitting security income

(6.) Acceptable methods for delivery of securities and collateral

(7.) Conditions that will terminate the loan

D. Policies To Encourage Local Development

1. Program Description

In accordance with current Council policies on the facilitation of local economic development, and the legal direction cited in Section I.A.5. of this Policy, local financial institutions will be utilized to provide investment products for a portion of the City's Portfolio. Such products will not necessarily result in maximum earnings for the Portfolio. However, the loss of short-term investment yields may be offset by the potential expansion of the tax base. Local financial institutions eligible for participation in this program are defined as: any financial institution whose deposits are insured by the Federal Deposit Insurance Corporation (for commercial and savings banks), the Savings Association Insurance Fund (for savings and loan associations), and the National Credit Union Share Insurance Fund (for credit unions) and organized and chartered under the laws of the United States or the State of California (collectively, the Institution), which also satisfies each of the following: (i) the Institution was founded and is headquartered in Fresno, Madera, Merced, Kings or Tulare County; (ii) the Institution shall be able to collateralize City funds in accordance with California GC Section 53652; and/or the Institution shall be able to use a private sector entity that assists in the placement of certificates of deposit in accordance with California GC Section 53601.8; (iii) if the Institution is a commercial bank, it shall have and maintain a Community Reinvestment Act (CRA) assessment area that includes all or substantially all of the low and moderate income census tracts in Fresno County and its most recent publicly available CRA rating in California is Satisfactory or Outstanding; and (iv) if the Institution is a credit union, a savings and loan association, or a savings bank, it shall have met the minimum operating standards required by its appropriate Federal or State regulatory body . Local broker-dealers may be used if they can supply the requisite investment instruments needed for the Investment Portfolio.

2. Program Objectives

The objectives of the Program are to partner with local financial institutions with invested funds to be used for the economic development, housing investment and other community services for Fresno, and to achieve a local preference for Fresno broker-dealers who can provide the necessary financial products to the City.

3. Apportionment

The Program will earmark up to fifteen million dollars ($15,000,000) of the Portfolio for placement with local financial institutions.

4. Program Conditions For Local Financial Institutions

a. Financial Institution Questionnaire

All local financial institutions interested in the Program must complete a Depository Questionnaire (See Appendix A) and provide current and prior year audited financial statements, as well as the most recent quarterly statement of financial conditions. In the case of a bank, the bank's latest CRA Report shall be submitted. For all other local financial institutions, their latest publicly available regulatory report shall be submitted. (See also Section V.C.1.)

b. Collateral Requirements

A local financial institution participating in the Program must be willing and able to collateralize City deposits in accordance with California GC Section 53652. Alternatively, the local financial institution must be able to use a private sector entity that assists in the placement of certificates of deposit, in accordance with GC Section 53601.8.

c. Economic Development

Time deposits, as evidenced by a certificate, or a statement of the City's deposit, may be placed with those local financial institutions who qualify by certifying in the Depository Questionnaire that they have made loan(s) amounting to at least $250,000 in any of the City of Fresno's low-income census tracts. If applicable, qualified institutions offering the highest interest rates will be given preference.

d. Other Conditions

(1.) An executed Contract For Deposit of Moneys per GC Section 53649

(2.) Collateralization required in accordance with GC Section 53652 or FDIC insurance in accordance with GC Section 53601.8 (c.)

(3.) Waiver of collateral permissible per GC Section 53653

(4.) A certificate or statement evidencing the deposit and its terms is required

(5.) No pending bank material adverse financial events

(6.) No conflicts of interest with City officials

(7.) Satisfactory Community Reinvestment Act rating

5. Program Conditions For Broker-Dealers

a. Selection of Participant(s)

Local broker-dealers will be surveyed and selected in accordance with Section V.C.2. of this Policy.

b. Maintenance of "Good Standing"

The successful broker-dealer(s) and their firm must remain in good standing with the Securities and Exchange Commission (the "SEC"), the National Association of Securities Dealers (the "NASD"), and the State of California, in accordance with Section 25004 of the Corporations Code.

c. Selection of Investment Instruments

Investment instruments will be selected in accordance with Section III.A.1.a. of this Policy.

## IV. INVESTMENT FUNCTION ORGANIZATIONAL STRUCTURE

### A. Department of Finance

The Director of the City of Fresno's Department of Finance serves as the City's Controller and Treasurer. He/she is responsible for providing the necessary organization and resources to maintain the City's financial standing. Divisions reporting to the Director are:

1. Financial Services Division

a. Accounting Section

This Section is responsible for central financial management functions, such as processing accounts payable, fixed asset management, enterprise and general accounting, grants management, and preparation of the City's ACFR and State Controller's Report.

b. Payroll Section

This Section is responsible for processing the City's bi-weekly payroll and ensuring adherence to and proper application of all bargaining unit agreements.

c. Treasury Section

This Section is responsible for management of the City's Investment Portfolio, daily cash management, debt administration, and bank reconciliations.

d. Collections Section

This Section is responsible for collection of various City of Fresno delinquent claims against others.

e. Business Tax & Permits Section

This Section is responsible for collecting taxes on business enterprises in the City of Fresno and issuing licenses and permits for certain regulated activities and events.

B. Treasury Section Responsibilities and Staffing – Investment Program Per GC 41006

1. Treasurer

The Director of Finance/City Controller also serves as the City's Treasurer. The Treasurer establishes overall policy, direction, and strategy for the City's investment program. He/she also sets overall policy, direction and strategy with regard to cash receipts processing and coordination of bank relations. The Treasurer may approve investments made by the Treasury Officer. The Treasurer establishes internal controls to the maximum extent permitted by budgetary constraints for the safeguarding and protection of all City assets. A primary method of effecting good internal controls is a segregation of duties as detailed in this Section IV of the Policy.

2. Assistant Controller (a deputy per GC 41006)

The Assistant Controller may approve investments made by the Treasury Officer.

3. Treasury Officer (a deputy per GC 41006)

The Treasury Officer is responsible for executing the policies/strategies developed by the Treasurer and monitors the daily operations of the Treasury Section. The Treasury Officer monitors daily market activity, confers with broker-dealers and banks, and selects investments for the City's Investment Portfolio. The Treasury Officer makes recommendations for policy changes, strategies and procedures for accomplishing Treasury goals and objectives.

4. Accountant-Auditor II (a deputy per GC 41006)

Two Accountant-Auditor IIs in the Treasury Section, under the supervision of the Treasury Officer, are responsible for daily cash management. They are also responsible for accounting for investment transactions and preparing the monthly investment reports.

C. Compensation Agreement

The Treasurer will charge all City Departments with funds in the Portfolio for administrative and overhead costs to manage the Portfolio. The Treasurer shall annually prepare a proposed budget, providing a detailed itemization of all estimated costs that comprise the administrative fee charged. Costs include, but are not limited to, Portfolio management, bank and custodial fees, software maintenance fees, and other indirect costs incurred in connection with handling or managing funds. The administrative fee may be subject to change and may be increased or decreased throughout the year in order to cover the costs of managing the Portfolio.

V. INVESTMENT OPERATING PROCEDURES

A. Investment Program Development

1. Overview

The investments of the City of Fresno are administered according to an investment program. The program is formulated by the Treasurer with the overall review and approval of the City Manager. The Treasurer shall evaluate the program at least monthly and recommend any changes that he/she feels to be warranted.

2. Program Organization

The Treasury Officer shall review the investment program daily to analyze performance and monitor any variances from the Policy. Results will be reported monthly to the Treasurer, and, in turn, the City Manager, Mayor and the City Council.

3. Program Operations

The investment program is developed by the Treasurer, Assistant Controller, Treasury Officer, Senior Accountant-Auditor or Accountant-Auditor II through the following procedures:

a. Observe and summarize economic and market analysis

b. Forecast available cash for investment. See III. B. 1.

c. Formulate strategies concerning

(1.) Asset mix

(2.) Investment instruments

(3.) Maturities

(4.) Target yields

d. Monitor performance against the current investment program

e. Evaluate any reasons for variance

B. Market and Economic Analysis

1. Overview

   The Treasury Officer will be responsible for routinely performing market and economic analysis to support investment strategy development and program planning. This analysis will be performed using information obtained from investment advisors and brokers, as well as original data. The objective of the market and economic analysis will be to forecast probable market conditions for the period for which investments are planned.

2. Data Analysis

   Economic and market analysis is performed routinely by assembling and analyzing current and trend data. Market analysis utilizes, for example, the following types of data:

   a. Basis point changes

   b. Tracking of individual securities

   c. Shape of the yield curve

   d. Yield curve movements

C. Selection Criteria For Local Financial Institutions and Broker-Dealers

1. Selection Criteria for Local Financial Institutions

   a. Minimum Criteria For Selection

      The Treasurer may approve a local financial institution if all the following criteria are met:

      (1.) The financial institution must provide insurance to its depositors through the FDIC, the Savings Association Insurance Fund (SAIF), or the National Credit Union Share Insurance Fund (NCUSIF).

      (2.) Only local financial institutions organized and chartered under the laws of the State of California or the laws of the United States shall be appointed as depositories of City funds.

      (3.) The institution must be willing and able to collateralize City funds in accordance with California GC Section 53652.

      (4.) Alternatively, an institution must be able to use a private sector entity that assists in the placement of certificates of deposit that will be insured in accordance with GC Section 53601.8 (c).

(5.) The institution must complete a City of Fresno Deposit Questionnaire. (See Appendix A)

2. Selection Criteria For Broker-Dealers

The Treasurer shall maintain an approved list of securities broker-dealers with whom the City may conduct security transactions. Only those broker-dealers on the approved list are entitled to submit quotations and transact business with the City. Any broker-dealer failing to maintain the minimum criteria outlined below will be deleted from the approved list.

a. Regulated Broker-Dealers

Only approved broker-dealers will be used for investment transactions. Broker-dealers must be regulated by the SEC, be members in good standing of the NASD, and be licensed by the State of California.

b. Broker-Dealer Certification

Each broker-dealer must complete the Broker-Dealer Certification (Appendix B) before conducting investment business with the City.

c. Broker-Dealer Diversification

There is no minimum or maximum number of broker-dealers that may be used by the City. The Treasurer may limit the number of broker-dealers with whom the City may do business.

d. Removal From Approved List

If, in the judgment of the Treasurer, a broker-dealer is considered to be placing the City's investments at risk, removal from the approved list can be done immediately.

D. Instrument Selection

1. Liquidity Needs

Investments are ordinarily selected according to anticipated cash needs. The City's normal operating cycle results in a larger need for liquidity during the months of November, December, and June. Investments shall be made with these requirements in mind.

2. Portfolio Structure and Policy Guidelines

The Treasury Officer will consider the composition of the current Portfolio and determine whether the securities being considered will maintain the Portfolio within Policy guidelines.

3. Current and Expected Yield Curve Analysis

   The Treasury Officer will monitor the current and expected yield curves. When interest rates are expected to <u>decline</u>, consideration will be given to <u>extending</u> weighted average maturity of the Portfolio within Policy constraints. When interest rates are expected to <u>increase</u>, consideration will be given to <u>shortening</u> the weighted average maturity of the Portfolio.

4. Yield Spread Analysis

   The Treasury Officer will monitor yield spreads among various Government Agency issues and U.S. Notes and Bonds.

E. Bond Swaps

1. Overview

   One element of active investment management includes swapping a bond held in the City's Portfolio for a comparable bond in the marketplace. The purpose of such a transaction is to enhance the overall yield on the Portfolio.

2. Criteria For Swaps

   A security swap may be considered if:

   a. The overall yield of the Portfolio after the swap does not decrease

   b. The maturity date of the new security is not more than two years longer than the maturity of the old security.

3. Criteria For Analyzing Swap Candidates

   Documentation of the incremental gain from doing a swap, as shown through an analysis similar to that provided by Bloomberg's "Swap-Switch Book Analysis" will be maintained with the City's permanent accounting documents.

4. Identification of Swap Candidates

   Swaps may also be suggested by broker-dealers who are on the City's approved list. Consistent with other parts of this Policy, all purchases and sales can be competitively bid. If a particular swap is recommended by a broker-dealer, and that broker-dealer has the best bid as determined by the Treasury Officer, the broker-dealer who made the recommendation will be awarded the swap.

5. Categories of Swaps

   The basic types of swaps are as follows:

   a. Swaps to Increase Yield

Aberrations in the market are often caused by supply and demand conditions for particular securities. If a short supply exists in a particular maturity range, for example, it may often be advantageous to swap out the security in short supply for another similar security in a different maturity range.

b. Swaps to Increase Portfolio Quality

Occasionally the demand for a particular security can create a situation where the security yields the same or less than an equivalent security with a higher rating. An improvement in Portfolio quality can thus be obtained by swapping the former security for the latter issue.

F. Certification

A copy of this Policy will be provided to the senior management of any financial institution, dealer, or broker-dealer wishing to transact investment business with the City in order that it be apprised of the investment goals of the City. Before business is transacted with the firm, a certification must be signed by a senior member of the firm.

## VI. PERFORMANCE EVALUATION AND REPORTING

Investment performance is continually monitored and evaluated by the Treasurer and Treasury staff. Investment performance statistics and activity reports are generated by the City's automated investment accounting system. The Treasury Section will produce summary reports on a monthly basis for review by the Mayor, City Manager, City Council and Internal Auditor.

A. Standard Monthly Reports

The following reports will be produced monthly and be included among the Treasurer's monthly activity reports.

1. Month-end Report

The month-end balance of operating funds, in the form of the bank balance, which has been reconciled with the balance in the City's Munis accounting system, will be reported. (The bank reconciliation shall be available upon request.)

The month-end Portfolio holdings will be shown by category of investment, showing the total book value, the total par value, the total market value, and the total expected returns of each category of investment. The rate of return on the Portfolio will be presented, both month-to-date and for the previous rolling twelve months. Additionally, the total earned interest on the Portfolio is shown, both month-to-date and year-to-date. (More detailed reports concerning the investments themselves shall be available upon request.)

2. Maturity Distribution Report

The month-end Portfolio holdings will be shown in a table by category of investment and grouped by the remaining maturity. A bar chart will also show the distribution of the par value by maturity.

3. Portfolio Position Detail

   The complete list of month-end Portfolio holdings will be shown by category of investment. The listing will display each holding's issuing institution, CUSIP number, coupon rate, yield to maturity, purchase date, maturity date, par value, amortized value, market value, and ending unit price.

4. Custom Reports Are Available On Request

B. Changes To The Policy

The City Council is encouraged by GC Section 53646 and required by FMC Section 7-104 to consider and approve an Investment Policy at least annually. Following adoption of the Policy, the Council must approve material changes or revisions to the Policy as well.

APPENDIX A

**CITY OF FRESNO**
**FINANCE DIVISION/TREASURY SECTION**
**2600 FRESNO STREET, ROOM 2156**
**FRESNO, CALIFORNIA 93721**

**DEPOSITORY QUESTIONNAIRE AND CERTIFICATION**

---

(Please type in response.)

1. Name of Depository
________________________________________

2. Address: ____________________ Corporate: ____________________

____________________ ____________________

____________________ ____________________

3. Primary Representative: Alternate:

Name:____________________ Name: ____________________

Title:____________________ Title: ____________________

Phone: (800)____________________ Phone: (800)____________________

4. Check the investment instruments offered by your institution.

| Instrument Types | |
|---|---|
| U.S. Treasuries | |
| Government Sponsored Corporations | |
| Bankers Acceptances | |
| Commercial Paper | |
| Certificates of Deposit | |
| Repurchase Agreements | |
| Reverse Repurchase Agreements | |
| Medium-term Corporate Notes/Bonds | |
| Mutual Fund Shares | |
| Asset-Backed Securities | |

5. Explain your collateral practices and policies for public fund deposits. Does the depository consistently have collateral available in amounts exceeding $1 million? In what form are public deposits collateralized?

6. Does the depositor have the option to select the type of collateral? If so, does the interest rate vary according to the collateral? Explain.

7. Does the bank utilize a private sector company that assists in the placement of certificates of deposit, with Insuring Institutions such as Promontory Interfinancial Corporation LLC, through its Certificate of Deposit Account Registry Service ("CDARS")?

8. Explain your methodology for establishing interest rates on public fund deposits. Are rates driven off a standardized market index? Are rates set in correlation with specific loan demands upon the depository?

9. As of your last fiscal year end, did the depository exceed the minimum standards established by thrift regulators for tangible capital, core capital, and risk-based capital? If not, explain. Include annual reports for the last three years.

10. Has your depository ever been subject to an investigation or receivership proceedings by a regulatory agency? If so, explain.

11. Does your depository prepare periodic announcements or press releases relating to the performance of the depository? If so, please include the most recent release.

12. Are there any fees or charges for doing business with your institution? Discuss your policy on early withdrawals of time deposits. Include the contract your depository uses for public fund deposits.

13. Has your depository ever been subject to an investigation or found to be in violation of the Community Reinvestment Act of 1977, or any other pertinent regulatory agency laws or regulations? Explain your policies (if applicable) for compliance with this Act.

14. Within the preceding year, has your depository made a loan or loans amounting to at least $250,000 in a low-income census tract within the City of Fresno?

15. Please describe any of the depository's business development or job creation programs.

16. Is your depository founded and headquartered in any one of the five counties of Fresno, Madera, Tulare, Kings, or Merced?

Certification

(To be signed by a person authorized by corporate resolution or by similar proceedings to make representations on behalf of the responding institution.)

I hereby certify that I have personally read the Investment Policy and Objectives of the City of Fresno for Fiscal Year _________, ending June 30, _________, and have directed staff assigned to the City's account to do the same. The standards of this Policy will apply to all investments subsequent to its effective date as determined by the Fresno City Council. Furthermore, I agree to personally read any changes or amendments to this Investment Policy which may be submitted by the City. This institution has in place procedures and a system of controls to preclude imprudent investment activities arising out of transactions conducted between our institution and the City of Fresno. All assigned personnel to the City's account will be routinely informed of the City's investment objectives, horizon, strategies and risk constraints whenever I am so advised by City personnel. Either I, or an assigned representative, will notify City staff immediately by telephone and in writing in the event of a material adverse change in our financial condition. I pledge to exercise due diligence in informing City staff of all foreseeable risks associated with financial transactions conducted with this institution. I attest to the accuracy of the responses within this questionnaire.

Signed: ____________________________ Name: _____________________________________

Title: _______________________________ Date: _______________________________________

Attest:______________________________ Name: ______________________________________

Title:_______________________________ Date: _______________________________________

APPENDIX B

**City of Fresno Finance Department**
**2600 Fresno Street, Room 2156**
**Fresno, California 93721**
**(559) 621-7004, fax (559) 488-4636**
**www.fresno.gov**

**BROKER/DEALER REQUEST FOR INFORMATION**

## SECTION 1: STATEMENT OF POSITION AND GENERAL REQUIREMENTS

The City of Fresno (hereinafter referred to as the "Government") is a statutory (home rule) Government operating under the laws of the State of California. The Government manages an operational portfolio ranging in size from 250 million to 300 million dollars, which is comprised mainly of U.S. agency obligations, corporate notes, treasury notes, and selected money market instruments. The Government has adopted a written Investment Policy which regulates the standards and procedures used in its cash management activities. A copy of the Investment Policy is attached as an Appendix to this document.

The Government maintains relationships with qualified members of the broker/dealer community who, in their opinion, understand the needs, constraints, and goals of the Government.

Broker/dealers will be notified of their approval by the Government in writing. No transactions will be conducted with an approved broker/dealer until all paperwork required by both parties has been executed. The Government solicits competitive bids and offers on the majority of its transactions. All securities will be delivered against payment to the third-party custodian named by the Government. Government personnel will review and substantiate all information and references requested in the document; therefore, please answer all questions as thoroughly as possible.

## SECTION II - PART I: REQUEST FOR GENERAL INFORMATION FROM BROKER/DEALER CANDIDATE

1. Name of Firm ______________________________

2 Address-Local ______________________________

Headquarters ______________________________

______________________________

______________________________

(Provide both street address and/or P.O. Box No., if applicable)

3. Telephone No. Local ( ) ______________________________

(800) ______________________________

Headquarters ( ) ______________________________

4. Contact personnel: (provide as an attachment if more space is required)

Name ______________________________

Title ______________________________

Telephone No. ______________________________

Name ______________________________

Title ______________________________

Telephone No. ______________________________

Name ______________________________

Title ______________________________

Telephone No. ______________________________

4a. Provide background information concerning the account representative listed in No. 4 above. Please include information on the individual's employment history as it relates to the securities industry, official licenses and certificates, the history and details of any disciplinary actions or complaints and the disposition of each as well as the history of any arbitration or litigation, the nature of the case and status or disposition.

______________________________

______________________________

______________________________

______________________________

5. Please provide the following information regarding at least four comparable clients with whom any of the representatives listed in No. 4 has an established relationship. We would prefer public sector clients in our geographical area, if possible.

Client Name ______________________________

Address ______________________________

Person to contact ______________________________

Telephone No. ______________________________

Length of relationship ______________________________

Client Name ______________________________

Address ______________________________

Person to contact ______________________________

Telephone No. ______________________________

Length of relationship ______________________________

Client Name ______________________________

Address ______________________________

Person to contact ______________________________

Telephone No. ______________________________

Length of relationship ______________________________

Client Name ______________________________

Address ______________________________

Person to contact ______________________________

Telephone No. ______________________________

Length of relationship ______________________________

6. Has/have the representative(s) listed in No. 4 above been authorized by the firm to be account representative(s) for City of Fresno, California?

   Yes __________ No ____________

   If yes, by whom? ______________________________

   ______________________________

7. Please list the name of the immediate supervisor of the account representative(s) named in your response to No. 4 above.

   ______________________________

   ______________________________

   ______________________________

8. Briefly describe any formal program of supervision of the account representative(s) named in No. 4, if your firm has established such a program.

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

9. Is the firm either licensed or supervised by the Securities Exchange Commission and the National Association of Securities Dealers? If not, why not?

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

10. Place an "X" by each regulatory agency that your firm is examined by and/or is subject to its rules and regulations.

    FDIC ______________ SEC ______________ NYSE ______________

    Comptroller of Currency ____________ Federal Reserve System ___________

    Other (example: State Regulatory Agency). Multi-state firms please note: It is not necessary to include regulatory agencies which do not have jurisdiction over your firm's activities in Fresno, California.

11. Have you obtained all required licenses to operate as a broker/dealer in the state of California?

    Yes _________ No ____________

12. If you are not a Bank, please provide the following information regarding your principal banking relationship.

    Bank Name ______________________________________________

    Address ______________________________________________

    Person to contact ______________________________________________

    Telephone No. ______________________________________________

    Length of relationship ______________________________________________

13. Is the firm a primary dealer in U.S. Government Securities?

    Yes _________ If so, how many years? _________ No _______

14. Indicate the investment instruments offered regularly by the firm by placing a check-mark next to the type of instrument. Is the firm a primary dealer in U.S. Government Securities?

| Instrument Types | Check if Applicable |
|---|---|
| U.S. Treasuries | |
| Government Sponsored Corporations | |
| Bankers Acceptances | |
| Commercial Paper | |
| Certificates of Deposit | |
| Repurchase Agreements | |
| Reverse Repurchase Agreements | |
| Medium-term Corporate Notes/Bonds | |
| Mutual Fund Shares | |
| Asset-Backed Securities | |

15. Does your firm specialize in any of the instruments listed above? If so, please specify which ones.

________________________________________

________________________________________

________________________________________

16. Has the firm ever been notified in writing by a public-sector client that the firm or a firm representative was in part responsible for a loss on a securities transaction? If so, explain.

________________________________________

________________________________________

________________________________________

17. Has the firm ever been subject to a regulatory or state or federal agency investigation for alleged improper, fraudulent or disreputable activities in connection with a public-sector client? If so, explain.

________________________________________

________________________________________

________________________________________

18. To the best of your knowledge, has there been any "material" litigation, arbitration or regulatory proceedings, either pending, adjudicated or settled, that your firm has been subject to within the last five years that involved issues concerning the suitability of the sale or purchase of securities to institutional clients or fraudulent or unfair practices related to the sale of securities to an institutional client? If so, please describe each such matter briefly. For purposes of this section, proceedings are "material" if your independent accountant applying generally accepted accounting principles determines that such proceedings required disclosure on your financial statements.

______________________________________________

______________________________________________

______________________________________________

19. Explain the firm's practices for monitoring credit quality of institutions. Does the firm have internal expertise in this area?

______________________________________________

______________________________________________

______________________________________________

20. What was the firm's capital position as of last fiscal year end?

______________________________________________

______________________________________________

______________________________________________

21. Are there any fees or charges for doing business with your institution? If so, include a complete schedule of fees and charges.

______________________________________________

______________________________________________

______________________________________________

22. Please provide certified audited financial statements for the last three years. In addition, for those dealers preparing and submitting financial statements to the following organizations, please provide publicly available financial documents filed with these agencies for the previous two years:

National Association of Securities Dealers
Securities and Exchange Commission
New York Stock Exchange
Federal Deposit Insurance Corp.

**CERTIFICATION**

(To be signed by a person authorized by corporate resolution or by similar proceedings to make representations on behalf of the responding institution.)

I hereby certify that I have personally read the Investment Policy and Objectives of the City of Fresno for Fiscal Year ____________, ending June 30, ____________, and have directed staff assigned to the City's account to do the same. The standards in this Policy will apply to all investments subsequent to its effective date, as determined by the Fresno City Council. Furthermore, I agree to personally read any changes or amendments to this Investment Policy, which may be submitted by the City. This firm has in place procedures and a system of controls to preclude imprudent investment activities arising out of transactions conducted between our institution and the City of Fresno. All assigned personnel to the City's account will be routinely informed of the City's investment objectives, horizons, strategies and risk constraints whenever I am so advised by City personnel. Either I or an assigned representative will notify City staff immediately by telephone and in writing in the event of a material adverse change in our financial condition. I pledge to exercise due diligence in informing City staff of all foreseeable risks associated with financial transactions conducted with this institution. I attest to the accuracy of the responses within this questionnaire.

Signed:____________________________ Name:____________________________

Title:____________________________ Date:____________________________

Attest:____________________________ Name:____________________________

Title:____________________________ Date:____________________________

APPENDIX C

**Glossary of Cash Management Terms**

The following is a glossary of key investment terms, many of which appear in the City of Fresno Investment Policy.

Accrued Interest - The accumulated interest due on a bond as of the last interest payment made by the issuer.

Agency Note (or Federal Agency or United States Government-Sponsored Enterprise) - A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

All Available Funds – All monies deposited in the City of Fresno Treasury at any one time, which may be used for operations or are available for investment. The total amount of surplus funds and operating funds which the City of Fresno may legally claim at any one time.

Amortization - The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

Average Life - The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Banker's Acceptance - Bill of exchange or time draft drawn on and accepted by a commercial bank. With the credit strength of the bank behind it, the banker's acceptance usually qualifies as a money market instrument.

Barbell – Portfolio management strategy in which funds are concentrated in both short term and long-term type of investments, with little to nothing in mid-term securities. Designed to provide liquidity while at the same time capturing higher yields from longer term investments.

Basis Point - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to *25* basis points.

Bid - The indicated price at which a buyer is willing to purchase a security or commodity.

Book Value - The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Broker-Dealer – An investment securities sales firm that has the ability to both arrange for sales of securities, as well as buying securities for its inventory.

Callable Bond - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk - The risk to a bondholder that a bond may be redeemed prior to maturity.

Capital – Funds which may be invested in various projects, ventures, or enterprises.

Cash Sale/Purchase - A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

CDARS – Certificate of Deposit Account Registry Service is the copyrighted deposit placement service offered through Promontory Interfinancial Network LLC (Promontory). Through this service, Promontory attempts to place time deposits (CDs) issued by Insured Institutions within the Promontory network in principal amounts that will not exceed the Standard Maximum Insurance Amount (SMDIA) for deposits of one depositor at one Insured Institution (currently $250,000). CDARS is a proprietary process owned by Promontory that allocates orders submitted by participating financial institutions on behalf of their depositors on dates (Order Dates) specified by Promontory.

CDARS Deposit Placement Agreement – Contract between depositor and participating depository financial institution for the placement of time deposits with other participating depository financial institutions by the contracted participating depository financial institution, through Promontory Interfinancial Network LLC (Promontory), utilizing Promontory's Certificate of Deposit Account Registry Service (CDARS).

Certificates of Deposit (non-negotiable) – Receipts for funds deposited in a bank or savings and loan association for a specified period of time at a specified rate of interest. The first $250,000 is guaranteed by the Federal Deposit Insurance Corporation (FDIC) for banks, the Federal Savings and Loan Insurance Corporation (FSLIC) for savings and loan associations and the National Credit Union Share Insurance Fund (NCUSIF) for credit unions.

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.

Collateralized Mortgage Obligation – Mortgage-backed bond separating mortgage pools into different maturity classes.

Commercial Paper - An unsecured short-term promissory note issued, with maturities ranging from 1 to 270 days, issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Such instruments are unsecured and usually discounted.

Consumer Receivable-backed Bond - See Consumer Receivable Pass Through.

Consumer Receivable Pass Through – Debt instrument secured by consumer receivables such as credit card receivables. Payments are passed through to the investor direct from the underlying receivable.

Convexity - A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

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

Counterparty – Other party to a transaction. Buyers and sellers are counterparties to each other, for example.

Credit Quality - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Risk - The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Current Yield (Current Return) - A yield calculation determined by dividing the annual interest received on a security by the current market price of that security

Custodian – Bank or other financial institution having custody or possession of the assets of another business or individual for the purpose of safekeeping.

Debt Instrument – Any of a number of obligations to repay funds or monies borrowed, usually with interest. Examples include loans, mortgages, bonds, debentures, and certificates of deposit.

Default – Failure to repay a debt obligation.

Delivery Versus Payment (DVP) - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Discount - The amount by which the par value of a security exceeds the price paid for the security.

Diversification - A process of investing assets among a range of security types by sector, maturity, and quality rating.

Equipment Lease-backed Security – Debt instrument backed by equipment leases. Repayment comes from lease payments by the lessee on equipment leased.

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

FDIC – Federal Deposit Insurance Corporation. An agency of the United States Government that insures bank deposits against loss of principal in the accounts of the bank's depositors, up to a maximum amount of funds deposited per account (currently $100,000).

Federal Funds - Fed Funds - Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

Federal Funds Rate - Interest rate charged by one institution lending federal funds to the other.

GASB – Governmental Accounting Standards Board

GASB 3 – GASB Pronouncement providing direction and guidance on how a government's cash and investments are to be presented in the government's Comprehensive Annual Financial Report.

GASB 31 – GASB Pronouncement providing further direction and guidance on how a government's cash and investments are to be presented in the government's Comprehensive Annual Financial Report. It requires that the fair value of the government's investments be presented.

GASB 40 – Revises GASB 3 to require additional disclosure of the degree of risk associated with a government's investment portfolio.

GASB 72 - GASB Pronouncement with respect to a government's cash and investments. It provides guidance for determining a fair value measurement for financial reporting purposes.

Government Securities - An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

Government Sponsored Enterprise – See Agency Notes.

Indenture – Agreement between bondholders, trustee and issuer, in which issuer agrees to repay monies borrowed from bondholders. Specifies how proceeds of bond issue may be used.

Insured Institution – Term used to describe a financial institution that is one of the participants in the Promontory Interfinancial Network, LLC. These are banks who agree to accept a time deposit and issue a Certificate of Deposit ("CD") to a depositor in an account that is insured by the Federal Deposit Insurance Corporation ("FDIC"). The principal, along with aggregated interest in this account, shall not exceed the Standard Maximum Deposit Insurance Amount ("SMDIA") offered by the FDIC (currently $100,000 per account.)

Interest Rate - See "Coupon Rate."

Interest Rate Risk - The risk associated with declines or rises in interest rates which cause in investment in a fixed-income security to increase or decrease in value.

Inverted Yield Curve - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

Investment Company Act of 1940 - Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment Policy - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Investment-grade Obligations - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

Inverse Floaters – Debt securities paying an interest rate that floats inversely with a specified index, such as the T-Bill rate. For example, as the T-Bill rate rises, the Inverse Floater rate will decline.

Issuer – An issuer of debt, for example, bonds, is a borrower of funds in the debt markets.

Liquidity - An asset that can be converted easily and quickly into cash.

Local Agency Investment Fund (LAIF) – Fund managed by the California Treasurer's Office, offering local agencies the opportunity to invest surplus funds at better than average market rates of return with same-day liquidity.

Mark-to-market - The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Risk - The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value - Current market price of a security.

Maturity - The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity."

Medium-term Notes - All corporate and depository institution debt securities with a maximum of five years or less remaining to the date of maturity at the time of purchase, 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.

Money Market Mutual Fund - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

Mortgage-derived Interest-only Strips - Derivative investment consisting of a series of interest payments from mortgages. Risky because original investment may or may not be paid back.

Mortgage Pass-through security – Security that pays investors everything received. All principal and interest received is passed through to the investor.

Mortgage-backed Bond – Bond securitized by mortgages. Issued by FNMA and FHLMC for example.

Mutual Fund - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

National Association of Securities Dealers (NASD) - A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Nationally Recognized Statistical Rating Organization (NRSRO) – Commonly known as a "rating agency," an organization issuing credit ratings or scores with regard to the credit quality of the debt instruments issued by both public and private entities. Best known examples include Moody's, Standard and Poor's, and Fitch.

Negotiable Certificate of Deposit – Large dollar amount, short-term certificate of deposit issued by large banks and bought mainly by corporations and institutional investors. They are payable to the bearer or to the order of the depositor and, being negotiable, they are traded in an active market and usually have a maturity less than six months.

Net Asset Value - The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.) [(Total assets) - (Liabilities)]/(Number of shares outstanding)

Nominal Yield - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

Offer - An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

Operating Funds – Amount of money needed to meet the operating needs of the City on a daily, weekly, monthly or annual basis. This includes the amount of money needed to pay vendors, employees, bondholders, and other creditors. This is the amount of money normally kept in the City's bank account to pay City obligations. As specified in the Policy, the target amount for this balance is $15,000,000, on any given day. By contrast, see "Surplus Funds."

Par - Face value or principal value of a bond, typically $1,000 per bond.

Pay-through Bond – Bond whose cash flow generated by its underlying security is paid through to investors

Positive Yield Curve - A chart formation that illustrates short-term securities having lower yields than long-term securities.

Premium - The amount by which the price paid for a security exceeds the security's par value.

Primary Government Dealer – A well-capitalized securities brokerage firm that is required to participate in U.S. Treasury auctions of its debt instruments.

Principal - The face value or par value of a debt instrument. Also, may refer to the amount of capital invested in a given security.

Promontory Interfinancial Network – A private sector firm that places time deposits ("CDs"), with participating Insured Institutions through Promontory's CDARS. California Government Code Sections 53601.8 and 53635.8 permit the City to place funds for the purchase of time deposits with Insured Institutions through private sector firms such as Promontory Interfinancal Network.

Prospectus - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

Prudent Person Rule - An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

Range Note – Investment whose coupon payment varies depending on whether the current benchmark falls within a specified range. If it does not, then there is no requirement to pay any interest at all. Range notes have a high coupon as long as a market index remains below a specified level or within a specified range, but a zero percent coupon if it does not.

Regular Way Delivery – Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+1 basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.

Reinvestment Risk - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

Repurchase Agreement (repo RP) - An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

Return on Investment – Interest earnings on other gains as measured a percentage basis with respect to the amount of the investment.

Reverse Repurchase Agreement (Reverse Repo) - An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

Rule 2a-7 of the Investment Company Act - Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13- month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

Safekeeping - Holding of assets (e.g., securities) by a financial institution.

Securities Lending Agreement – Agreement between investors and other owners of securities to lend them to broker-dealers and other institutions for short periods of time, in exchange for a negotiable fee.

Safety – An objective of portfolio management. Most often refers to maintenance of principal or the prevention of the loss of capital.

Selected depository institution- as defined by California GC Sections 53601.8(a) and 53635.8 (a), a nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union within California, that has been contracted by a local agency, to submit local agency funds to a private sector entity that assists in the placement of certificates of deposit (time deposits) with other commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States, for the local agency's account. The selected depository institution shall serve as a custodian for each certificate of deposit that is issued with the placement service for the local agency's account.

SMDIA- Standard Maximum Deposit Insurance Amount. This term is defined by Promontory Interfinancial Network LLC as the current FDIC limit of $100,000 per account deposited in a bank account and insured by the FDIC against loss of principal.

Surplus Funds – As specified in State law, funds which are not required for the immediate needs of the local agency. The City may invest any portion of these funds it deems wise or expedient in investments set forth in this Policy. See III. A. 1.a. (Contrast operating funds.)

Swap - Trading one asset for another.

Term Bond - Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

Total Return - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return

Treasury Bills - Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Notes - Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from $1,000 to $1 million or more.

Treasury Bonds - Long-term U.S. government debt securities with maturities often years or longer and issued in minimum denominations of $1,000. Currently, the longest outstanding maturity for such securities is 30 years.

Uniform Net Capital Rule - SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

Volatility - A degree of fluctuation in the price and valuation of securities.

Weighted Average Maturity (WAM) - The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

When Issued (WI) - A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

Yield - The current rate of return on an investment security generally expressed as a percentage of the security's current price.

Yield-to-call (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

Yield Curve - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

Yield-to-maturity - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

Zero-coupon Securities - Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

# INVESTMENT POLICY STATE-FRESNO LIMITS BY INVESTMENT TYPE

| Authorized Investments | Maximum Maturity | Quality Rating | Maximum % Limit Of Portfolio State | Maximum % Limit Of Portfolio Fresno | Maximum % Limit Of Portfolio Per Single Issuer State | Maximum % Limit Of Portfolio Per Single Issuer Fresno | Maximum % of Single Issuer's Debt State/Fresno |
|---|---|---|---|---|---|---|---|
| City of Fresno Debt | 5 Years | N/A | 100% | 100% | 100% | 100% | 100% |
| U.S. Treasuries | 5 Years | N/A | 100% | 100% | 100% | 100% | 100% |
| California Debt | 5 Years | N/A | 100% | 100% | 100% | 100% | 100% |
| Other 49 States Debt | 5 Years | N/A | 100% | 100% | 100% | 100% | 100% |
| Cal Local Agency Debt | 5 Years | N/A | 100% | 100% | 100% | 100% | 100% |
| GSE Agencies | 5 Years | N/A | 100% | 70% | 100% | 50% | 100% |
| Banker's Acceptances | 180 Days | N/A | 40% | 40% | 30% | 30% | 100% |
| Commercial Paper | 270 Days | A-1/P-1 | 25% | 25% | 25% | 25% | 10% |
| Certificates of Deposit | 5 Years | Insured | 30% | 30% | 30% | 30% | Shareholders Equity |
| Negotiable CDs | 5 Years | N/A | 30% | 30% | 30% | 30% | Shareholders Equity |
| Time Deposits | 5 Years | Collateral | 100% | 100% | 100% | 100% | Shareholders Equity |
| Shares of Section 6509.7 JPAs | N/A | N/A | 100% | 100% | 100% | 100% | 100% |
| GC 53601.8 CDs | 5 Years | Insured | 30% | 30% | 30% | 30% | Shareholders Equity |
| Repurchase Agmnts | 1 Year | Collateral | 100% | 100% | 100% | 100% | 100% |
| Reverse Repurchase Agmnts | 92 Days | N/A | 20% | 20% | N/A | N/A | 100% |
| Securities Lending Agmnts | 92 Days | N/A | 20% | 20% | N/A | N/A | 100% |
| Medium-Term Notes | 5 Years | A | 30% | 30% | 30% | 20% | 100% |
| Mutual Funds | N/A | AAA | 20% | 20% | 10% | 10% | 100% |
| Money Market Funds | N/A | AAA | 20% | 20% | 20% | 20% | 100% |
| Mortgage/Asset Backed Debt | 5 Years | AA | 20% | 20% | 20% | 20% | 100% |
| LAIF | N/A | N/A | 100% | 100% | 100% | 100% | 100% |
| Supranational Organizations | 5 Years | AA | 30% | 30% | 30% | 30% | 100% |
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