



Financial Management Department

City of Long Beach Investment Policy

December 2, 2008

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California Government Code

- Pursuant to Section 53600 of the California Government Code
- Based on the Prudent Investor Standard
- Objectives:
 - Safety of principal
 - Maintaining adequate liquidity
 - Yield
- Enumerates authorized investments

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Prudent Investor Standard

- Exercise reasonable care, skill and caution in the context of an overall investment strategy, not in isolation
- Incorporate risk and return objectives
- Diversification is a basic tenet of risk management
- Incur only costs that are reasonable in amount and appropriate to the investment responsibilities

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City of Long Beach Investment Policy

Objectives:

- Safety
- Liquidity
- Yield

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City of Long Beach Investment Policy

Safety:

Safety of principal is the foremost objective of the investment program. Risk is inherent throughout the investment process. The City's investments shall be undertaken in a manner that seeks to maximize the preservation of capital in the overall portfolio and minimize the risk related to capital losses, institutional default, broker-dealer default, or erosion of market value.

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City of Long Beach Investment Policy

Liquidity:

The City's investment portfolio will remain sufficiently liquid to meet all operating requirements that might be reasonably anticipated.

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City of Long Beach Investment Policy

Yield:

The City shall manage its funds to earn a return commensurate with the two primary objectives of safety and liquidity. The investment goal is to generate interest income through the prudent implementation of the Investment Policy.

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City of Long Beach Investment Policy

The City of Long Beach's Investment Policy:

- Conforms to the State of California Government Code
- Is more conservative than the State of California Government Code

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City of Long Beach Investment Policy

Permitted Investments:

- Conservative Ratings
- Conservative Maturities
- Diversification

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Investment Oversight

Three layers of independent review:

City Auditor

Quarterly Investment Audits

KPMG, LLC

Annual External Independent Audit

Investment Committee

- | | |
|------------------------------------|--|
| • Assistant City Manager | • City Controller |
| • Assistant City Attorney | • Budget and Performance Manager |
| • Assistant City Auditor | • Harbor Financial Officer |
| • Director of Financial Management | • Water Financial Officer |
| • City Treasurer | • Development Services Financial Officer |

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Investment Committee Recommendations

Recommendations:

1. Hire an outside, independent Investment Advisor to review the City's investment portfolio on a monthly and as needed basis;
2. Identify other alternative quantitative and qualitative investment criteria for review;
3. Review daily investment activity reports; and,
4. Increase the meeting schedule from quarterly to monthly meetings, with emergency meetings scheduled to address extenuating issues.



Investment Policy Guidelines

Investment Type	California State Code	CLB Policy	Comments
Local City or Agency Bonds	5 years, No limit, No rating requirement	5 years, 30% limit, No rating requirement	Long Beach policy more conservative
State Obligations	5 years, No limit, No rating requirement	5 Years, 30% limit, must be rated at least A1, SP-1 or Aaa	Long Beach policy more conservative
U.S. Agency ("GSE")	5 years, No limit, No rating requirement	5 years, No limit, 10% of any one agency total investment	Long Beach policy more conservative
U.S. Agency ("GSE") Callable Securities	5 years, No limit, No rating requirement	5 years, 20% short-term limit, 10% long-term limit	Long Beach policy more conservative
Negotiable Certificate of Deposits	5 years, 30% limit, No rating requirement	5 years, 30% limit, 10% of any one issuer	Long Beach policy more conservative
Medium Term Notes	5 years, 30% limit, Rated "A"	5 years, 30% limit, Rated "A", Limit 10% any one issuer	Long Beach policy more conservative
Mortgage or Asset backed securities	5 years, 20% limit, Rated "AA", Issuer rated "A"	5 years, 20% limit, Rated "A", Issuer rated "A"	Long Beach policy more conservative
Bank/Time Deposits	5 years, Collateral & capital limits, No rating requirement	5 years, Collateral & capital limits, No rating requirement, 10% limit per issuer	Long Beach policy more conservative
Repurchase Agreement	Collateral at 102% for one-year term, No rating requirement	Collateral at 102% for 90-day term, No rating requirement	Long Beach policy more conservative
Commercial Paper	25% limit, Maximum 270 days, Rated A1/P1/F1, Long-term rating "A", 10% in any one issuer	25% limit, Maximum 270 days, Rated A1/P1/F1, Long-term rating "A", 10% in any one issuer	Current operational practice is more conservative



Investment Policy Guidelines (Continued)

Investment Type	California State Code	CLB Policy	Comment
U.S. Treasuries	5 years, No limit	5 years, No limit	Conforms to Government Code
Banker's Acceptances	40% limit, Maximum 180 days, 30% in any one issuer	40% limit, Maximum 180 days, 30% in any one issuer	Conforms to Government Code
Mutual & Money Market Fund	20% with multiple ratings, 10% limit to any one issuer, \$500 million minimum size fund	20% with multiple ratings, 10% limit to any one issuer, \$500 million minimum size fund	Conforms to Government Code
Local Agency Investment Fund (LAIF)	Limit of \$40 million in each account	Limit of \$40 million in each account	Conforms to Government Code
Reverse Repurchase Agreements (RRP) and Securities Lending	20% limit, must meet upcoming maturity, but maximum 92 days. RPP securities must be owned for 30-day minimum	20% limit, must meet upcoming maturity, but maximum 92 days. RPP securities must be owned for 30-day minimum	Conforms to Government Code

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Short Term Debt Ratings

Moody's	S&P	Fitch	Definitions
Investment Grade			
P-1/MIG 1 ↑	A-1+/SP-1+	F-1+	Superior financial backing. Issuer has access to wide variety of financial protection in the event primary revenue source is weakened
P-1/MIG 2	A-1/SP-1	F-1	Financial backing is strong, but issuer does not have access to as wide a variety of protection mechanisms as notes in higher category.
Investment Grade, but Not Permitted			
P-2/MIG3	A-2/SP-2	F-2	Issuer has satisfactory, but not outstanding, capacity to pay principal and interest.
P-3/MIG 4	A-3/SP-3	F-3	Issuer has only speculative capacity to pay principal and interest, adequate protection but specific risk exists with this issue.
Non-Investment Grade			
NP/SG	B – B-3	B	Inadequate protection of short-term issue; speculative nature with minimal capacity to meet its commitment
	C	C	Possibility of default is high
	D	D	Obligor is in default

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Long Term Debt Ratings

Moody's	S&P	Fitch	Definitions
Investment Grade			
Aaa	AAA	AAA	Extremely strong capacity to meet its financial commitments
Aa1	AA+	AA+	Very strong capacity to meet its financial commitments.
Aa2	AA	AA	Very strong capacity to meet its financial commitments.
Aa3	AA-	AA-	Very strong capacity to meet its financial commitments.
A1	A+	A+	Strong capacity to meet its financial commitments
A2	A	A	Strong capacity to meet its financial commitments
A3	A-	A-	Strong capacity to meet its financial commitments
Investment Grade, but Not permitted			
Baa1	BBB+	BBB+	Adequate capacity to meet its financial commitments.
Baa2	BBB	BBB	Adequate capacity to meet its financial commitments.
Baa3	BBB-	BBB-	Adequate capacity to meet its financial commitments.

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Long Term Debt Ratings (continued)

Moody's	S&P	Fitch	Definitions
Non-Investment Grade			
Ba1	BB+	BB+	Less vulnerable in the near term than other lower-rated obligors however, it faces major uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments.
Ba2	BB	BB	See above.
Ba3	BB-	BB-	See above.
B1	B+	B+	More vulnerable in the near term than other lower-rated obligors however, it faces major uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments
B2	B	B	See above.
B3	B-	B-	See above.
Caa1	CCC+	CCC+	An obligor is currently vulnerable and is dependent upon favorable business, financial, or economic conditions to meet its financial commitments.
Caa2	CCC	CCC	See above.
Caa3	CCC-	CCC-	See above.
CA	CC	DDD	Currently Highly Vulnerable to not meeting its financial commitments, default.
C	R	DD	Under regulatory supervision, default.
WR	SD/D	D	Selective Default/Default. Rating withdrawn.
	NR	E	Not rated.

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Investment Policy Summary

- Stricter than the State of California Government Code
- Safety, Liquidity and Yield are the Three Major Objectives
- Quarterly and Annual Investment Portfolio Audits
- Monthly Investment Committee Review

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