



CITY OF LONG BEACH

R-17

DEPARTMENT OF FINANCIAL MANAGEMENT

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November 17, 2015

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Adopt the attached Statement on Investment Policy for Calendar Year 2016 pursuant to Section 53646 (a) of the State of California Government Code. (Citywide)

DISCUSSION

In accordance with the State of California Government Code, Section 53600, et seq., the City Treasurer must present to the City Council an annual Statement of Investment Policy (Investment Policy). The Investment Policy for the City is based on policies recommended by several professional organizations including the California Municipal Treasurers' Association and the California Society of Municipal Finance Officers.

The proposed 2016 Investment Policy has a number of non-material improvements designed to make the Policy easier to understand and slightly more conservative. It was reviewed and approved by the Investment Advisory Committee (IAC) and recommended for adoption by the City Council. The changes are detailed in Attachment A.

TIMING CONSIDERATIONS

The Government Code requires the City Council's adoption of the City's Investment Policy annually.

FISCAL IMPACT

There is no fiscal impact expected from these changes and there is no local job impact associated with this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

PATRICK WEST
CITY MANAGER

Attachment A – 2016 Investment Policy Changes

Section #	Change Description	Page No.
1.4.1	Language changed to better align with the objectives of the Investment Policy.	3
APPENDIX A CHANGES		
1	Removed Item #1 as it is already represented in item #4.	8
4	Language changed to better align with the objectives of the Investment Policy.	8
5A	Removed additional sub-portfolio diversification as the objectives of the Investment Policy are already addressed in the overall portfolio limitation.	9
6 - 8	Language changed to better align the objectives of the Investment Policy.	9 - 10
APPENDIX D CHANGES		
N/A	Definition updated on LAIF to reflect the updated limit provided by the State Treasurer.	18
N/A	Definition updated on Long-Term Portfolio to better align with the objectives of the Investment Policy.	18
N/A	Security Ratings definition added to further clarify the objectives of the Investment Policy.	19
N/A	Definition updated on Treasury Notes and Bonds to further clarify the investment.	20

City of Long Beach

INVESTMENT POLICY



Effective January 1, 20165

INVESTMENT POLICY

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City of Long Beach Investment Policy
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1.1 Scope

- 1.1.1 In accordance with Resolution No. C-22401, the City Treasurer is authorized to invest the City's funds in accordance with the State of California Government Code, Section 53600, et seq. The objective of the Investment policy ("Policy") is to ensure that the temporarily idle funds of the City of Long Beach are prudently invested to preserve capital and provide necessary liquidity, while maximizing earnings.
- 1.1.2 Investments may only be made as authorized by the State of California Government Code, Section 53600, et seq., the ("Code") and this policy. This policy conforms to the Code as well as to customary standards of prudent investment management. Should the provisions of the Code become more restrictive than those contained herein, such provisions will be considered as immediately incorporated in this policy.
- 1.1.3 This policy sets forth the City's investment of surplus funds in the Investment Pool. Excluded from this policy are guidelines for the investment of Debt Service and Reserve and Deferred Compensation Funds.
- 1.1.4 All authorized officers are governed by this policy, The City Treasurer is responsible for monitoring and ensuring that the total funds subject to this policy remain in compliance with this policy, and shall report to the City Council regularly on compliance.

1.2 Investment Objectives

- 1.2.1 The primary objectives, in priority order, of the City's investment activities shall be:
 - A. Safety: Safety of principal is the foremost objective of the investment program, however 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 from institutional default, broker-dealer default, or erosion of market value.
 - B. Liquidity: The City's Investment Pool will remain sufficiently liquid to meet all operating requirements that might be reasonably anticipated.
 - C. Yield: The City shall manage its funds to maximize the return on investments consistent with the two primary objectives of safety and liquidity. The investment goals are to maximize interest income through the prudent implementation of the Policy.
- 1.2.2 It is the intent of this policy to hold investments until maturity, however, if the City's liquidity needs require that investments be sold at a gain or loss, or

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because of a downgrade of credit quality, national or public issues, or to take advantage of market conditions which will result in a gain on reinvestment of the sale proceeds, the security may be sold and the decline in value shall be recorded as a loss.

- 1.2.3 Investments shall be made in the context of the "Prudent Investor" standard which states: "investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived in the context of managing an overall portfolio".
- 1.2.4 Authorized Officers in the management of the Investment Pool shall use the "Prudent Investor" standard. Investment officers acting in accordance with this investment policy, and written portfolio 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 the quarterly investment report to the City Council, and appropriate action is taken to control adverse developments.

1.3 Delegation of Authority

- 1.3.1 The City Council shall be the trustee of funds received by the City. In accordance with the Code, Section 53607, and Resolution C-22401, the City Council hereby delegates the authority to invest or reinvest the City's funds, to sell or exchange securities so purchased and to deposit securities for safekeeping to the City Treasurer.
- 1.3.2 The City Treasurer shall establish written procedures for the investment of surplus funds, consistent with this policy, including establishment of appropriate written agreements with financial institutions. The City Treasurer may engage independent investment managers or Advisors to assist in the investment of the City's financial assets.
- 1.3.3 No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer.
- 1.3.4 Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program or which could impair their ability to make impartial investment decisions. All investment personnel shall comply with the reporting requirements of the Fair Political Practices Committee and include an annual filing of a Statement of Economic Interests.

1.4 Permitted and Prohibited Investments

- 1.4.1 All surplus funds which are not required for immediate cash expenditures shall be invested in income producing investments or accounts, in compliance with the provisions and restrictions of this Policy as outlined in Appendix A and as specifically authorized by the Code, Section 53600, et seq.

In order to reduce overall portfolio risk, investments shall be diversified among types of investments, maturities of those investments, issuers and depository institutions. See Appendix A for specific concentration limits by type of investment.

All investment concentration limits and minimum quality guidelines are to be applied at all times.

- 1.4.2 Maturities of individual investments shall be diversified to meet the following objectives:

- A. Investment maturities will be first and foremost based on the City's anticipated cash flow requirements.
- B. No investment instrument shall be purchased which matures more than five years from the settlement date, unless the instrument is specifically approved by the City Council or is approved by the City Council as part of an investment program and such approval must be granted no less than three months prior to the investment.
- C. The maximum weighted average maturity of the Investment Pool shall be three (3) years.

- 1.4.3 This Policy specifically prohibits the investment of any funds subject to this policy in the following securities:

Derivative securities, as defined in Section 53601.6 of the Code as any security that derives its value from an underlying instrument, index, or formula, are prohibited. The derivative universe includes, but is not limited to, structured and range notes, securities that could result in zero interest accrual if held to maturity, variable rate, floating rate or inverse floating rate investments, and mortgage derived interest or principal only strips.

1.5 Selection of Depository Institutions, Investment Managers and Broker-Dealers

- 1.5.1 To minimize the risk to the City's overall cash and Investment Pool, prudence and due diligence as outlined below shall be exercised with respect to the selection of financial institutions in which the City's funds are deposited or invested.

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- A. In selecting Depositories pursuant to the Code, Section 53600, et seq., the credit worthiness, financial stability, and financial history of the institution, as well as the cost and scope of services and yields offered shall be considered. No funds will be deposited in an institution unless that institution has been evaluated by a nationally recognized independent rating service as satisfactory or better.
 - B. Deposits of \$250,000 or less which are insured pursuant to federal law by the Federal Deposit Insurance Corporation (FDIC), or the National Credit Union Administration (NCUA) may be excluded from the independent rating service evaluation requirement above and from the collateralization requirements of Section 1.6.3 of this Policy, at the City Treasurer's discretion.
- 1.5.2 Pursuant to the Code, Section 53601.5, the City and its Investment Managers shall only purchase statutorily authorized investments either from the issuer, from the broker-dealer licensed by the state, as defined in Section 25004 of the Corporations Code, from a member of a federally regulated securities exchange, a national or state-chartered bank, a federal or state 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. Selection of broker/dealers who the City can purchase or sale investments shall be made by reviewing past performance and contacting references. The City's Investment Advisor, if applicable, will be used to review the information provided and make a recommendation based upon their research.
- A. Internal investment managers will only purchase or sell securities from broker-dealers defined in section 1.5.2 of the Policy and meet the minimum requirements of being registered and licensed by the National Association of Securities Dealers (NASD) and possess an active Series 7 license, an active Series 66 license (or Series 63), submission of a NASD form U4 (employment history) and a current NASD form U5 Disclosure Statement and have completed the City's broker/dealer questionnaire.
 - B. Internal investment managers will only use broker-dealers that have a minimum of three years experience working for a primary dealer or five years working for a non-primary dealer.
- 1.5.3 Selections of external investment manager(s)/Advisors to manage a portion of the Investment Pool shall be based on an RFP process, which will include, at the minimum, past performance, stability, financial strength, reputation, area of expertise, and willingness and ability to provide the highest investment return at the lowest cost to the City within the parameters of this

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Policy and the California Government Code. External investment managers must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor Act of 1940.

- A. External investment managers may purchase or sell securities from non-Primary Dealers qualified under U.S. Securities and Exchange Commission Rule 15C3-1, the Uniform Net Capital Rule, and provided that the dealer is a certified member of the National Association of Securities Dealers. External investment managers shall submit to the City at least quarterly, a list of the non-Primary Dealers used during the period.
- B. External investment managers must certify in writing that they will purchase securities in compliance with this Policy, City Procedures, and applicable State and Federal laws.

1.5.4 Depositories, and external investment managers, who do business with the City, shall sign a Certification of Understanding (see Appendix B). All broker-dealers who do business with the City's internal investment managers shall acknowledge receipt of the City's Investment Policy (see Appendix C).

1.6 Custody and Safekeeping of Securities and City Funds

- 1.6.1 Collateral pledged for investments in Repurchase Agreements, are shall be held by the City's Custodial Agent or a third party Trust Department approved by the City Treasurer. Third party transactions will be governed by an Agreement between all parties on the disposition of the pledge securities in the event of default or non-compliance with the terms of the Repurchase Agreement.
- 1.6.2 All purchases and sales of securities in the Investment Pool shall be settled "delivery vs. payment", using the appropriate delivery system for the security, i.e., Federal Reserve Book entry, Depository Trust Company ("DTC") or physical delivery to the appropriate party designated financial institution or Trust Company. Exception to this policy are , mutual fund investments, and Local Agency Investment Fund, pledged collateral, or other Local Government Investment Pools

Funds deposited by the City shall be secured by a Depository in compliance with the requirements of the Code, Section 53652.

- 1.6.3 Investment securities in bearer form such as Negotiable Certificates of Deposit and Bankers' Acceptances shall be held in a qualified safekeeping financial institution or Trust Department designated by the City.

1.7 Reports and Communications

- 1.7.1 The City Treasurer is responsible for ensuring compliance with all applicable Local, State, and Federal laws governing the reporting of investments made

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with public funds. The Investment Pool will be monitored for compliance. Non-compliance issues will be included in the quarterly City Council report as stated in Section 1.7.3 of this Policy.

- 1.7.2 The City Treasurer shall annually submit a statement of investment policy to the City Council for approval. The existing approved policy will remain in effect until the City Council approves the recommended statement of investment policy.
- 1.7.3 The City Treasurer shall render a quarterly cash, investment, and transaction report to the City Manager (referred to as the Chief Executive Officer by the Code, Section 53646, b), the City Auditor and the City Council within a reasonable time period, but no later than 90 days following the end of the quarter covered by the report, subject to Investment Advisory and City Council meeting schedules. The report shall include a description of the City's funds, investments, or programs that are under the management of the contracted parties, including lending programs. The report shall include at a minimum:
- A. A detail report listing the type of investment, name of the issuer, maturity date, par value and cost, accrued interest and market value. .
 - B. Ending cash balances held at the primary and secondary financial institutions.
 - C. Describe any Investment portfolio managed by an outside advisor or manager, including any securities lending programs, if applicable. Summary discussion of the performance of each portfolio within the Investment Pool performance as of the date of the ending quarterly report.
 - D. Statement of compliance of the Investment Pool to the Investment Policy, or manner in which the portfolio is not in compliance.
 - E. Statement denoting the ability of the City to meet its pool's expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may not, be available.
- 1.7.4 Investment managers shall monitor investments and market conditions and report on a regular and timely basis to the City Treasurer. The City Treasurer will form and act as Chairman of the Investment Advisory Committee ("IAC"). Members of the Committee should include a representative from the City Attorney's office, the City Auditor's office, the City Controller, the Cash/Investment Manager, the Debt Manager and representatives from the major participants in the Investment Pool. The IAC will meet quarterly or more often if necessary.

1.8 Internal Control

1.8.1 The City Treasurer shall establish a system of internal controls designed to prevent losses of public funds arising from fraud, employee or third party error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by City employees or agents.

1.9 Purchasing Guidelines

1.9.1 Authorized officers shall purchase and sell securities at the price and execution that is most beneficial to the City, while maintaining the primary objectives of liquidity, safety and yield. Prior to the purchase of any security, the City's liquidity requirements shall be analyzed to determine the optimal investment maturities. Purchase and/or sales shall be done on a competitive basis using the approved list of broker/dealers.

2.0 Benchmarks

2.0.1 Investment Pool performance shall be compared and evaluated against the following benchmarks:

- Short Maturity Portfolio: Three-month Treasury Bill
- Intermediate Term Portfolio: One Year Constant Maturity Treasury or equivalent Index whose duration is equal to one (1) year
- Long Maturity Portfolio: Merrill Lynch AAA U.S. Treasury/Agency 1-5 year Index

Benchmark indices can be redefined or changed by the City Treasurer due to changes in the markets.

3.0 Ethics and conflicts of Interest

The City Treasurer, along with the members of the Investment Advisory Committee, and other employees involved in the investment decision-making process are required to file annual disclosure statements as required by the Fair Political Practices Commission (FPPC) and, in addition, comply with the City of Long Beach current guidelines of disclosure on annual basis.

Summary of Authorized Investment Types & Restrictions*

#	Type of Investment	% of Portfolio Authorized*	Other Restrictions
1.	Bonds issued by the City or agency of the City.	30 %	Maximum maturity of five (5) years unless a longer maturity is approved by the City Council.
2.	United States Treasury notes, bonds, bills or certificates of indebtedness or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.	100 %	
3.	Registered state warrants or notes or bonds of the State of California.	30 %	Such obligations must be rated A1, SP-1 or equivalent or better short term; or Aa/AA or better long term, by a national rating agency.
4.	Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California.	30 %	Such obligations must be rated A1, SP-1 or equivalent or better short term; or Aa/AA or better long term, by a national rating agency. Rating criteria is measured at time of purchase.
5.	Federal agency or United States government-sponsored enterprise ("GSE") obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.	100 %	

Summary of Authorized Investment Types & Restrictions*

#	Type of Investment	% Of Portfolio Authorized*	Other Restrictions
5A	Callable Federal agency or United States government-sponsored enterprise ("GSE") obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.	25 %	Limited to 20% and 25% for the Short-Term and Intermediate and Long-Term Portfolio outstanding balance;
6.	Bill of exchanges or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances. Investment must be rated at least "A-1" or "P-1" or "F-1" by one of the nationally recognized statistical-rating organization (NRSRO). Rating criteria is measured at time of purchase.	40 %	Purchases of bankers' acceptances may not exceed 180 days maturity. No more than 30% of the portfolio may be invested in any one bank or corporate issuer.
7.	Commercial paper rated at least "A-1" or "P-1" or "F-1" by one of the nationally recognized statistical-rating organization (NRSRO) Eligible paper is further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000) and having an "A" or higher rating for the issuer's debentures, other than commercial paper, if any, as provided for by a nationally recognized statistical-rating organization (NRSRO). Rating criteria is measured at time of purchase.	25 %	Purchases of eligible commercial paper may not exceed 270 days maturity. Limit of 5% of any one Issuer.

Summary of Authorized Investment Types & Restrictions*

#	Type of Investment	% Of Portfolio Authorized*	Other Restrictions
8.	<p>Negotiable certificates of deposits issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank.</p> <p>The underlying rating of an Issuer must be rated at least "A-1" or "P-1" or "F-1" by one of the nationally recognized statistical-rating organization (NRSRO). Rating criteria is measured at time of purchase.</p>	30 %	<p>Maximum maturity of five (5) years unless a longer maturity is approved by the City Council. No more than 10% of the portfolio may be invested in any one bank name.</p>
9.	<p>Time Certificates of Deposit.</p>	100 %	<p>The City may invest in non-negotiable time deposits collateralized in accordance with the California Government Code, in those banks and savings and loan associations which meet the requirements for investment in negotiable certificates of deposit.</p>

Summary of Authorized Investment Types & Restrictions*

<p>10.</p>	<p>Investments in repurchase agreements. The repurchase agreement must be covered by a master written agreement in the form of the current Public Securities Association agreement. Repurchase agreements shall be collateralized at all times. Collateral shall be limited to obligations of the United States and Federal Agencies with a market value of 102 percent or greater of the funds borrowed against those securities at all times. Collateral shall be delivered to a third party custodian in all cases. Collateral for term repurchase agreements shall be valued daily either by the City's investment manager (for internal funds), external investment manager or third party Trustee. The City shall obtain a first lien and security interest in all collateral.</p>	<p>100 %</p>	<p>See California Government Code Section 53601, (I)</p> <p>Term of repurchase agreement cannot exceed 90 days.</p> <p>Repurchase agreements shall be executed through Primary Broker-Dealers.</p>
<p>11.</p>	<p>Reverse Repurchase Agreements.</p>	<p>20 %</p> <p>Term of agreement cannot exceed 92 days.</p>	<p>The City may enter into a reverse repurchase agreement under the following situations:</p> <ol style="list-style-type: none"> 1. Immediate payment of an unanticipated cash outflow. In such a case, the term of the reverse repurchase agreement shall not exceed 92 days, and shall be matched to a known cash inflow of sufficient size to repay the principal and interest of the reverse repurchase agreement. 2. To enhance the return on the City's portfolio. Reverse repurchase agreements used for this purpose shall not exceed 92 days to maturity, and must be matched as to maturity and dollars invested with its corresponding reinvestment. No more than 20% of the market value of the portfolio may be invested in reverse repurchase agreements.

Summary of Authorized Investment Types & Restrictions*

12.	Securities Lending Program.	20 %	City may enter into securities lending agreements for the purpose of increasing income to the portfolio with banks registered to do business in the United States and rated A or better by Moody's or Standard and Poor's rating services.
13.	Medium-term notes issued by corporations organized and operating within the United States, or by any state within the United States.	30 %	<p>Maximum five (5) year maturity. Notes must be rated "A" or its equivalent or better by a nationally recognized rating service.</p> <p>No more than 5% of the portfolio may be invested in any one issuer name. If rated by more than one rating service, both ratings must meet the minimum credit standards.</p>
14.	Shares of beneficial interest issued by diversified management companies investing in the securities and obligations as authorized by the State of California Code 53601 and 53630 et seq.	20 % maximum in any one or more money market fund, with no more than 10% of the total in any one bond mutual fund	Companies must have either 1) the highest ranking or the highest letter and numerical rating provided by not less than two of the nationally recognized rating services, or (2) retained an investment advisor registered or exempt with the Securities and Exchange Commission, with no less than five years' experience investing in A) Bond Funds: the securities and obligations authorized by State Code 53601 a-j inclusive and l or m; or B) Money Market Mutual Funds: money market mutual funds; both with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price may not include any commissions charged by these companies.

Summary of Authorized Investment Types & Restrictions*

15.	State of California Local Agency Investment fund (LAIF) only. (Amended January, 2009)	100 %	Maximum investment in LAIF accounts are dependent upon limits established under the Local Agency Investment Fund guidelines.
16.	Asset-backed securities.	20 % combined with any mortgage-backed securities.	Limited to senior class securities with legal stated final maturities of no more than 5 years. Further limited to securities rated in a rating category of "AAA", and issued by an issuer having an "A" or higher rating for the issuer's debt as provided for by a nationally recognized rating service. Further limited to fixed rate, publicly offered, generic credit card and automobile receivables only. Deal size must be at least \$250 million, and tranche size must be at least \$25 million.
17.	Mortgage-backed securities.	20 % combined with any asset-backed securities	Pass-Through securities: Limited to Government Agency or Government Sponsored issuers, fixed rate, and final stated legal maturity of 5 years. CMOS: Limited to Government Agency or Government Sponsored Issuers "AAA" rated Planned Amortization Classes (PAC) only. The following are prohibited: ARMS, floaters, interest or principal (IOs, POs), Targeted Amortization Classes, companion, subordinated, collateral classes, or zero accrual structures.
18.	Financial Futures and Financial Options.	N/A	Not allowed under this policy.

APPENDIX B

CITY OF LONG BEACH

CERTIFICATION OF UNDERSTANDING

The City of Long Beach Investment Policy as approved by the City Council requires that all Financial Institutions and Investment Managers doing business with the City sign a Certification of Understanding acknowledging that:

1. You have read and are familiar with the City's Investment Policy and Guidelines as well as applicable Federal and State laws.
2. You meet the requirements as outlined in the City's Investment Policy.
3. You agree to make every reasonable effort to protect the assets of the City from loss.
4. You agree to notify the City in writing of any potential conflicts of interest.
5. You agree to notify the City in writing of any changes in personnel with decision-making authority over the City's funds within 24 hours of such event.

Failure to submit a Certification of Understanding shall result in the withdrawal by the City of all funds held by the financial institution or investment manager and the immediate revocation of any rights to act as an agent of the City for the purchase of securities or investment of funds on behalf of the City.

The City Council is committed to the goals of the Community Reinvestment Act (CRA). As part of the certification process for depository institutions, it is requested that you remit evidence of your most recent CRA rating.

SIGNED: _____ DATE: _____
Print Name and Title: _____

After reading and signing this Certification of Understanding please return with any supporting documentation to:

City of Long Beach
City Treasurer's Office
333 W. Ocean Blvd.
Long Beach, CA 90802

City of Long Beach use only:
Approved: _____ Disapproved: _____ Date: _____
Signature: _____

Date Notification sent: _____ Sent by: _____

APPENDIX C

CITY OF LONG BEACH

BROKER-DEALER RECEIPT OF INVESTMENT POLICY

We are in receipt of the City of Long Beach's Investment Policy.

We have read the policy and understand the provisions and guidelines of the policy. All salespersons covering the City's account will be made aware of this policy and will be directed to give consideration to its provisions and constraints in selecting investment opportunities to present to the City.

Signed:

Name

Name

Title

Title

Firm Name

Date

After reading and signing this Receipt of Investment Policy, please return with supporting documentation to:

City of Long Beach
City Treasurer's Office
Attention: Investment Manager
333 West Ocean Boulevard
Long Beach, CA 90802

City of Long Beach use only:

Approved: _____ Disapproved: _____ Date: _____

Signature: _____

Date notification sent: _____ Sent by: _____

APPENDIX D
CITY OF LONG BEACH
INVESTMENT POLICY DEFINITIONS

ADJUSTABLE RATE MORTGAGE (ARM): A mortgage that features predetermined adjustments of the loan interest rate at regular intervals based on an established index. The interest rate is adjusted at each interval to a rate equivalent to the index value plus a predetermined spread, or margin, over the index, usually subject to per-interval and to life-of-loan interest rate and/or payment rate caps.

ASKED: The price at which securities are offered from a seller.

ASSET BACKED SECURITIES: Securities issued by corporations organized and operating in the United States that are collateralized with some class of assets; credit cards, mortgages, etc. Examples of some issuers are Citibank, Chase Manhattan Bank, American Express.

BANKERS' ACCEPTANCE (BA): Time drafts that a bank "accepts" as its financial responsibility as part of a trade finance process. These short-term notes are sold at a discount, and are obligations of the drawer (or issuer- the bank's trade finance client) as well as the bank. Once accepted, the bank is irrevocably obligated to pay the BA upon maturity if the drawer does not.

BID: The price offered by a buyer of securities.

BOND: A debt security. It is usually issued by government agencies, municipalities and corporations. The purchaser actually lends the entity money and is considered the creditor. The entity is the seller and is considered the debtor or issuer. The issuer agrees to repay the principal amount of the loan at a specified time (maturity). Interest bearing bonds pay interest periodically at a predetermined time. A discounted bond such as a Zero Coupon bond pays no interest. It is sold at a discount from face value (par value) and the investor receives a rate of return through price appreciation and the bond is redeemed at face value.

BOOK VALUE: The original cost of the investment, plus accrued interest and amortization of any premium or discount.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs are typically negotiable (marketable or transferable).

COLLATERAL: Securities, evidence of deposit, or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public moneys.

COLLATERALIZED MORTGAGED OBLIGATION SECURITIES (CMOS): are mortgaged securities consisting of "pools" of real estate properties. These securities are broken into individual pools or sectors by maturity date called **TRANCHES**.

COMMERCIAL PAPER (CP): Unsecured promissory notes issued by companies and government entities at a discount. Commercial paper is negotiable, although it is typically

held to maturity. The maximum maturity is 270 days, with most CP issued for terms of less than 30 days.

CUSTODY or SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT: Delivery of securities with a simultaneous exchange of money for the securities.

DRAFT or TIME DRAFT: financial instrument used in international trade, such as a Bankers Acceptance.

EXTERNAL MANAGERS/ADVISORS: Professional firms who manage Investment portfolios for Corporations and Public entities. Generally these firms provide "best practice" reviews and recommendations to the contracting party on portfolio selection, duration and other factors including the impact to the contracting parties cash flow.

EXTERNAL PORTFOLIO: Defined as one or more of the Investment Pool managed by an outside Investment Advisor

FEDERAL AGENCIES AND U.S. GOVERNMENT SPONSORED ENTERPRISES (AGENCIES or "GSE"): U.S. Government related organizations, the largest of which are government financial intermediaries assisting specific credit markets (housing, agriculture). They include:

- Federal Home Loan Banks (FHLB)
- Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
- Federal National Mortgage Association (FNMA or "Fannie Mae")
- Federal Farm Credit Banks (FFCB)
- Student Loan Marketing Association (SLMA or "Sallie Mae")
- Tennessee Valley Authority (TVA)

FINANCIAL FUTURES AND FINANCIAL OPTIONS: A financial future is a contract to buy or sell a specific standard financial instrument during a specific future month at a price determined in a central, regulated marketplace, such as the Chicago Board of Trade (CBOT), etc. Futures contracts are available for a wide variety of financial instruments. Financial Options on financial futures contracts provide a purchaser the right (but not the obligation) to purchase or sell a given futures contract within a specified time period.

INTEREST ONLY (I.O.) SECURITIES: Securities that consist of the interest coupon of a bond. See Principal Only (P.O.).

INTERNAL MANAGERS: Are authorized city employees to purchase or sale securities in the Investment Pool. Authorization is the responsibility of the City Treasurer.

INTERNAL PORTFOLIO: Defined as one or more of the Investment Pool portfolios managed by City of Long Beach staff.

INVESTMENT ADVISORY COMMITTEE ("IAC"): The IAC consists of major shareholders of the Investment Pool; a representative from the City Attorney and City Auditor; Debt

Manager, FM Budget department employee and the City Controller. Members meet quarterly or more often, if necessary, to discuss the performance of the Investment Pool and review recommended changes in strategy, Pool composition and

INVESTMENT POOL: Defined as the existing City of Long Beach Investment portfolio consisting of a Short-term, Intermediate and Long-term portfolio, each with a different performance benchmark and weighted average maturity guideline.

INTERMEDIATE PORTFOLIO: Is a subset of the Investment Pool consisting of approved investments with a target duration of one (1) year. The benchmark for the portfolio is the One-year CMT Index.

LOCAL AGENCY INVESTMENT FUND (LAIF): The State of California created the Local Agency Investment Fund as an alternative investment for local agencies. The current restrictions are a maximum of \$540 million per account and ten transactions per month. The funds are protected under Section 16429.3 of the State of California Government Code and cannot be attached or seized by the State.

LONG-TERM PORTFOLIO: Is a subset of the Investment Pool consisting of approved investments with a target duration of one (1) to ~~five~~ **three (3)** years. The benchmark for the portfolio is the 1-~~35~~ Year Treasury/Agency Index.

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

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

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

MEDIUM TERM NOTES (MTN): Interest bearing, continuously offered debt, issued in the nine-month to ten-year maturity range. Deposit notes, like Certificates of Deposit, actually represent an interest bearing deposit at a bank or other depository institution.

MORTGAGED-BACKED SECURITIES: A bond or security that is secured by a lien on property, equipment or other real assets.

NEGOTIABLE CERTIFICATE OF DEPOSIT: A large denomination (generally \$1 million or more) Certificates of Deposit that can be sold in the secondary market but cannot be cashed in before maturity.

OFFER: The price asked by a seller of securities.

PAR VALUE: The face value or principal amount payable at maturity.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York, and are subject to its informal oversight.

PORTFOLIO GUIDELINES: Defined as the primary objectives as defined in this policy and the eligible investments to meet the primary objectives. Included in this definition are the policy maximum maturity of any investment; the weighted average maturity of the Investment Pool and other investments as approved by City Council on a case-by-case basis.

PRINCIPAL ONLY (P.O.) SECURITIES: A Security that has the interest coupons stripped from the body of the bond. The bond is a non-interest investment and is treated as a discounted/zero security.

RANGE NOTES: A security whose interest rate coupon is calculated on a formula that only pays interest if the value of the coupon falls within a prescribed "range" of interest rates.

REPURCHASE AGREEMENT (RP OR REPO): A purchase of securities under a simultaneous agreement to sell these securities back at a fixed price on some future date. This is in essence a collateralized investment, whereby the security "buyer" in effect lends the "seller" money for the period of the agreement, and the difference between the purchase price and sale price determining the earnings. Dealers use RP extensively to finance their positions.

REVERSE REPURCHASE AGREEMENTS: The opposite or "reverse" of a repurchase agreement. The City puts up securities as collateral to borrow funds. The collateral is "marked to market" by the lending institution daily and if the market value falls below the amount of funds borrowed, the City is required to put up additional funds; either cash and/or securities with a market value equal to or greater than the loan amount. The State of California Government Code limits the maturity term of this investment to 92 days. An additional restriction is a maximum of 20% of the City's funds can be invested in Reverse Repurchase Agreements.

SECURITIES AND EXCHANGE COMMISSION (SEC): An agency by Congress to protect investors in securities transactions by administering securities legislation.

SECURITIES LENDING: An activity that places investment securities with a contracted counterparty (dealer) who will lend the securities temporarily to another party against a commission. The borrower party is legally obligated to return the same type and amount of securities at the end of a specified period. This action is similar to a reverse repurchase transaction.

SECURITY RATINGS: At this time, all references to rating, NRSRO, nationally recognized independent rating service, independent rating service evaluation, national rating agency, nationally recognized statistical-rating organization, nationally recognized rating service will constitute the use of only Standard and Poor's (S&P), Moody's or Fitch's rating scales. Each investment is to comply with the credit quality requirements specified for its class. If split-rated, the lower investment rating will be measured.

SHORT-TERM PORTFOLIO: Is a subset of the Investment Pool consisting of approved investments, including LAIF and all cash balances held at Servicing Bank(s). The portfolio has a target duration of 90 days. The benchmark for the portfolio is the 90-day U.S. Treasury Bill.

TRANCHE: see CMOs

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

TREASURY NOTES AND BONDS: Long-term U.S. Treasury securities having initial maturities of 12 to 30 years.

VARIABLE RATE SECURITIES: A security whose coupon interest rate is not fixed but is adjusted periodically according to a prescribed formula or index.

WARRANTS: A short-term obligation of a governmental body (as a municipality or state) issued in anticipation of revenues.

WAM: Defined as the weighted average maturity of the Investment Pool or each of the component pools.

YIELD: The rate of annual income return on an investment expressed as a percentage.

YIELD TO MATURITY (YTM): is the rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.