

CITY OF TEMECULA

CALIFORNIA



STATEMENT OF INVESTMENT POLICY

Adopted May 28, 2024

TABLE OF CONTENTS

1.0 POLICY.....3

2.0 SCOPE.....3

3.0 PRUDENCE.....4

4.0 INVESTMENT OBJECTIVES.....4

5.0 DELEGATION OF AUTHORITY4

6.0 ETHICS AND CONFLICTS OF INTEREST5

7.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS.....5

8.0 AUTHORIZED AND SUITABLE INVESTMENTS6

9.0 REVIEW OF INVESTMENT PORTFOLIO7

10.0 INVESTMENT POOLS / MUTUAL FUNDS7

11.0 COLLATERALIZATION.....8

12.0 SAFEKEEPING AND CUSTODY OF SECURITIES.....8

13.0 DIVERSIFICATION8

14.0 MAXIMUM MATURITIES8

15.0 INTERNAL CONTROLS.....8

16.0 PERFORMANCE STANDARDS9

17.0 REPORTING.....9

18.0 INVESTMENT POLICY COMPLIANCE AND ADOPTION9

19.0 APPENDIX A - ALLOWABLE INVESTMENT INSTRUMENTS10

20.0 APPENDIX B - GLOSSARY OF TERMS.....12

1.0 POLICY

It is the policy (“Investment Policy” or the “Policy”) of the City of Temecula, the Temecula Community Services District, and the Successor Agency to the Temecula Redevelopment Agency (hereafter referred to collectively as the “City”) to invest public funds in a manner which will provide the highest investment return, with the maximum security, while meeting the daily cash flow demands of the City, and conforming to all State of California and City laws governing the investment of public funds.

Therefore, in accordance with the State of California authority governing investments for municipal governments as set forth in the California Government Code Sections 53600 et seq., and the powers and duties of the City Treasurer and other fiscal provisions as set forth in the Temecula Municipal Code, the City shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives of this Policy, in priority order of safety, liquidity and return on investment.

For the purposes of this Policy, “Investment Officers” shall be defined as the City Manager, Assistant City Manager, Director of Finance/City Treasurer, Assistant Director of Finance, and/or any other official that has been delegated authority by the City Treasurer.

2.0 SCOPE

This Policy applies to all investment activities and financial assets of the City. The funds covered by this Policy are accounted for and incorporated in the City’s Annual Comprehensive Financial Report (ACFR) and include:

- General Fund;
- Special Revenue Funds;
- Debt Service Funds;
- Capital Projects Funds;
- Internal Services Funds;
- Agency Funds; and
- Any new fund created by the City Council unless specifically exempted.

Funds excluded from this Policy include:

- **Bond Proceeds.** Proceeds of debt issuance shall be invested in accordance with the bond documents governing such funds as approved by the City Council or related governing board.
- **Deferred Compensation Plans.** Investments related to the City’s deferred compensation plans are not subject to this policy since third-party administrators manage them and the individual plan participant’s direct investment and mutual fund selection. Deferred compensation plans must be approved by the City Council.
- **Section 115 Trusts.** Investments related to the City’s Section 115 trusts are not subject to this policy since third-party administrators manage them and direct the investments and mutual fund selection. Section 115 trusts must be approved by the City Council.

All monies entrusted to the City Treasurer may be pooled in a diversified portfolio unless specifically exempted or excluded. Investments made on a pooled basis may include investments of the City and its

component units and agencies. Investment income will be allocated to the various funds based on their respective participation in accordance with general accepted accounting principles.

3.0 PRUDENCE

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 financial affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by the designated representative shall be the “prudent investor” standard and shall be applied in the context of managing the overall portfolio. Persons authorized to make investment decisions on behalf of local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard which states:

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 the Investment Policy 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.

4.0 INVESTMENT OBJECTIVES

The primary objectives, in priority order, of the City’s investment activities shall be:

- **Safety.** Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City will diversify its investments by investing funds among a variety of securities with independent returns.
- **Liquidity.** The City’s investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.
- **Return on Investments.** The City’s investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. These measurements should be commensurate with the City’s investment risk constraints identified in the Investment Policy and the cash flow characteristics of the portfolio.

5.0 DELEGATION OF AUTHORITY

California Government Code Sections 53607 and 53608 authorize the legislative body of a local agency to invest, deposit, and provide for the safekeeping of the local agency’s funds or to delegate those responsibilities to the treasurer of the local agency for a one-year period. The City of Temecula Municipal Code delegates to the City Treasurer the authority to invest and reinvest moneys of the City, to sell or

exchange securities, and to deposit them and provide for their safekeeping. The City Treasurer is responsible for daily management of the investment program, including:

1. Establishing procedures for operation consistent with the Investment Policy;
2. Approving daily investment transactions;
3. Developing projections of the City's cash requirements for operating needs;
4. Reviewing the liquidity position of the investment portfolio;
5. Ensuring that the City's cash position is consistent with operating requirements;
6. Preparing appropriate investment reports;
7. Developing, implementing, and monitoring controls over investments; and
8. Developing record keeping for investment transactions.

The City Treasurer may delegate investment authority to qualified and competent officials and City employees such as the Investment Officers.

6.0 ETHICS AND CONFLICTS OF INTEREST

The Investment Officers shall refrain from personal business activity that could conflict with proper execution and management of the Policy and the investment program, or which could impair their ability to make impartial decisions. The Investment Officers must provide a public disclosure document by April 1st of each year or when material interest in financial institutions or personal investment positions require it. Furthermore, the Investment Officers must refrain from undertaking personal investment transactions with the same individual(s) employed by the financial institution with whom business is conducted on behalf of the City.

7.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City Treasurer (or Investment Officers) will maintain a list of approved financial institutions authorized to provide investment services to the City. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). Best practices include the following:

1. A determination that all approved broker/dealer firms, and individuals covering the public agency, are reputable and trustworthy;
2. The broker/dealer firms should have the ability to meet all their financial obligations in dealing with the City;
3. The firms, and individuals covering the City, should be knowledgeable and experienced in public agency investing and the investment products involved;
4. No public deposit shall be made except in a qualified public depository as established by the established state laws; and
5. All financial institutions and broker/dealers who desire to conduct investment transactions with the public agency may supply the City Treasurer (or Investment Officers) with audited financial statements, proof of FINRA certification, trading resolution, proof of State of California registration, a completed broker/dealer questionnaire, certification of having read the City's investment policy and depository contracts.

An annual review of the financial condition and registrations of qualified bidders may be conducted by the City Treasurer (or Investment Officers) and a current audited financial statement requested for each financial institution and broker/dealer in which the City invests.

8.0 AUTHORIZED AND SUITABLE INVESTMENTS

From the governing body perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle. Therefore, in accordance with Government Code Sections 53601, 53601.6, 53601.8, 53635, 53635.2, 53638 and 53684, investments will only be made in authorized securities with a maturity date of five (5) years or less from the transaction settlement date.

For the purpose of approved investments and compliance with the investment percentage limits compared to the overall portfolio balance, calculations shall be performed on the date the investment is purchased. If the percentage is legally compliant on the date of purchase, then compliance with the Law shall have been met. Calculations are to be based on the final maturity date, and neither duration nor average days may be used.

The investment instruments listed in **Appendix A** are authorized for investment and any instrument not listed are specifically prohibited. Authorized investments are allowed under California State Government Code 53601 and 53635 and concentration limitations are equivalent to, or more conservative than, the code allows.

8.1 MASTER REPURCHASE AGREEMENTS

If repurchase agreements are legal or authorized, a Master Repurchase Agreement must be signed with the bank or dealer.

8.2 LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into the City's Investment Policy and supersede any and all previous applicable language.

8.3 INTEREST EARNINGS

All monies earned and collected from investments authorized in this policy shall be allocated monthly based on the cash balance in each fund as a percentage of the entire investment funds portfolio.

8.4 LIMITING MARKET VALUE EROSION

The longer the maturity of securities, the greater their market price volatility. Therefore, it is the general policy of the City to limit the potential effects from erosion in market values by adhering to the following guidelines:

- All immediate and anticipated liquidity requirements will be addressed prior to purchasing all investments;
- Maturity dates for long-term investments will coincide with significant cash flow requirements where possible; and
- All long-term securities will be purchased with the intent to hold all investments to maturity under then prevailing economic conditions. However, economic or market

conditions may change, making it in the City's best interest to sell or trade a security prior to maturity.

8.5 SECURITY SWAPS

A security swap is the movement from one security to another and may be done to for a variety of reasons, such as to increase yield, lengthen or shorten maturities, to take a profit, or to increase investment quality. A swap which improves the portfolio yield may be selected even if the transactions result in an accounting loss. Documentation for swaps will be included in the City's permanent investment file documents.

8.6 PORTFOLIO ADJUSTMENTS

Should an investment percentage-of-portfolio limitation be exceeded due to an incident such as fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses. When no loss is indicated, the City Treasurer will consider reconstructing the portfolio basing his or her decision, in part, on the expected length of time the portfolio will be unbalanced.

8.7 CREDIT DOWNGRADING

This Investment Policy sets forth minimum credit risk criteria for each type of security. This credit risk criteria applies to the initial purchase of a security; it does not automatically force the sale of a security if its credit risk ratings fall below policy limits.

If a security is downgraded below the minimum credit risk criteria specified in this Investment Policy, then the City Treasurer shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold.

9.0 REVIEW OF INVESTMENT PORTFOLIO

The securities held by the City must be in compliance with Section 8.0 Authorized and Suitable Investments at the time of purchase. Because some securities may not comply with Section 8.0 Authorized and Suitable Investments subsequent to the date of purchase, the Investment Officers should at least annually review the portfolio to identify those securities that do not comply. The City Treasurer should establish procedures to report to the City Council/Board of Directors and to any oversight committee, should one exist, major and critical incidences of noncompliance identified through the review of the portfolio.

10.0 INVESTMENT POOLS / MUTUAL FUNDS

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. Best efforts will be made to acquire the following information:

1. A description of eligible investment securities, and a written statement of investment policy and objectives;
2. A description of interest calculations and how it is distributed, and how gains and losses are treated;
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited;
4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed;

5. A schedule for receiving statements and portfolio listings;
6. Are reserves, retained earnings, etc. utilized by the pool/fund;
7. A fee schedule, and when and how is it assessed; and
8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

11.0 COLLATERALIZATION

Collateralization will be required on two types of investments: certificates of deposit and repurchase (and reverse repurchase) agreements. To anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value for Certificate of Deposits and 102% for reverse repurchase agreements of principal and accrued interest.

The City chooses to limit collateral to U.S. Treasuries. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. The right of collateral substitution is granted.

12.0 SAFEKEEPING AND CUSTODY OF SECURITIES

To protect against potential losses by collapse of individual securities dealers, all securities owned by the City, including collateral on repurchase agreements, will be held in safekeeping by a third-party bank trust department, acting as agent for the City under the terms of a custody agreement executed by the bank and by the City. All securities will be received and delivered using standard delivery-versus-payment (DVP) procedures (i.e., the City's safekeeping agent will only release payment for a security after the security has been properly delivered). Securities will be held by a third-party custodian designated by an Investment Officer and evidenced by safekeeping receipts. This section is intended to comply with Government Code Sections 53601 and 53608.

13.0 DIVERSIFICATION

The City will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City's total investment funds portfolio will be invested in a single security type or with a single financial institution.

14.0 MAXIMUM MATURITIES

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five (5) years from the date of purchase. With the express approval of the City Council, reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

15.0 INTERNAL CONTROLS

The City Treasurer shall be responsible for ensuring that all investment transactions comply with the City's Investment Policy and for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, fraud or misuse. The City Treasurer shall establish

written procedures for the operation of the City's investment program that are consistent with this Investment Policy.

Internal controls deemed most important shall include: avoidance of collusion; separation of duties and administrative controls; separating transaction authority from accounting and record keeping; custodial safekeeping; clear delegation of authority; management approval and review of investment transactions; specific limitations regarding securities losses and remedial action; written confirmation of telephone transactions; documentation of investment transactions and strategies; and monitoring of results.

Accordingly, the City Treasurer shall establish an annual process of independent review by an external auditor, which as part of its annual audit of the City, the City's external auditor will review compliance with statutes, policies, and procedures. This review will provide internal control by assuring compliance with policies and procedures.

16.0 PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The City's investment strategy is passive. Given this strategy, the basis used by the City Treasurer to determine whether market yields are being achieved shall be to identify a comparable benchmark to the portfolio investment duration (i.e., 90-day US Treasury Bill, 6-month US Treasury Bill, 2-year CMT-Constant Maturity Treasury). Benchmarks may change over time based on changes in market conditions or cash flow requirements.

17.0 REPORTING

Pursuant to California Government Code Section 53607, the authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

18.0 INVESTMENT POLICY COMPLIANCE AND ADOPTION

Pursuant California Government Code Section 53646(a)(2), the City's Investment Policy may be reviewed annually by the City Council and shall be adopted via resolution. Any modifications to the Investment Policy must be approved by the City Council.

The City Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City.

19.0 APPENDIX A - Allowable Investment Instruments

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2021)^A
 APPLICABLE TO ALL LOCAL AGENCIES^B

INVESTMENT TYPE	MAXIMUM MATURITY ^C	MAXIMUM SPECIFIED % OF PORTFOLIO ^D	MINIMUM QUALITY REQUIREMENTS	GOVERNMENT CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations— CA And Others	5 years	None	None	53601(c) and 53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40% ^E	None	53601(g)
Commercial Paper— Non-Pooled Funds ^F	270 days	25% of the agency's monies ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(c)
Commercial Paper— Non-Pooled Funds ^I	270 days	40% of the agency's monies ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(c)
Commercial Paper— Pooled Funds ^J	270 days	40% of the agency's monies ^G	Highest letter and number rating by an NRSRO ^H	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30% ^K	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50% ^L	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50% ^L	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days ^M	20% of the base value of the portfolio	None ^N	53601(j)
Medium-Term Notes ^{O+}	5 years	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds and Money Market Mutual Funds	N/A	20% ^P	Multiple ^{Q,R}	53601(l) and 53601.6(b)
Collateralized Bank Deposits ^R	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-Through Securities	5 years	20%	"AA" rating category or its equivalent or better	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple ^U	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund ^V	N/A	None	None	16340
Supranational Obligations ^W	5 years	30%	"AA" rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 Years	None	None	53601(r), 53635(c), and 57603

TABLE OF NOTES

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

20.0 APPENDIX B - Glossary of Terms

Accrued Interest: Interest earned but not yet received.

Active Deposits: Funds which are immediately required for disbursement.

Agencies: Federal agency securities and/or Government Sponsored Enterprises (GSE) which include Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bank (FFCB), and Federal Agricultural Mortgage Association (Farmer Mac).

Amortization: An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Annual Comprehensive Financial Report (ACFR): The official annual financial report for the City. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

Ask Price: The price a broker/dealer offers to sell securities.

Bankers' Acceptance (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Basis Point: One basis point is one hundredth of one percent (0.01).

Benchmark: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Bid Price: The price a broker/dealer offers to purchase securities.

Bond: A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book Value: The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

Certificate of Deposit: A deposit insured up to \$250,000 (current amount) by the FDIC at a set rate for a specified period of time.

Collateral: Securities, evidence of deposit, or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Constant Maturity Treasury (CMT): An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.

Coupon: The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Analysis: A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Current Yield: The interest paid on an investment expressed as a percentage of the current price of the security.

Custody: A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

Delivery vs. Payment (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

Discount: The difference between the cost of a security and its value at maturity when quoted at lower than face value.

Diversification: Dividing investment funds among a variety of securities offering independent returns and risk profiles.

Duration: The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent; the fulcrum of a bond's present value cash flow time line.

Fannie Mae: Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Federal Reserve System: The central bank of the U.S. which consists of a seven-member Board of Governors, 12 regional banks, and 5,700 commercial banks that are members.

Federal Deposit Insurance Corporation (FDIC): Insurance provided to customers of a subscribing bank which guarantees deposits to a set limit (currently \$250,000) per account.

Fed Wire: A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

Freddie Mac: Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

Ginnie Mae: Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

Inactive Deposits: Funds not immediately needed for disbursement.

Interest Rate: The annual yield earned on an investment, expressed as a percentage.

Investment Agreements: An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

Liquidity: Refers to the ability to rapidly convert an investment into cash.

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

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

Medium Term Notes: Corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

New Issue: Term used when a security is originally “brought” to market.

Perfecting Delivery: Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

Portfolio: Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Purchase Date: The date in which a security is purchased for settlement on that or a later date.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (REPO): A transaction where the seller (bank) agrees to buy back from the buyer (City) the securities at an agreed upon price after a stated period of time.

Reverse Repurchase Agreement (REVERSE REPO): A transaction where the seller (City) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

Risk: Degree of uncertainty of return on an asset.

Safekeeping: see Custody.

Sallie Mae: Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

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

Settlement Date: The date on which a trade is cleared by delivery of securities against funds.

Structured Notes: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, FHLMC, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

Supranationals: A supranational organization is formed by a group of countries through an international treaty with specific objectives such as promoting economic development. Supranational organizations also issue debt in the United States. The most commonly recognized supranational debt is the International Bank for Reconstruction and Development (IBRD or World Bank), International Finance Corporation (IFC) and Inter-American Development Bank (IADB).

Treasury Bills: U.S. Treasury Bills which are short-term, direct obligations of the U.S. Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of \$10,000 in multiples of \$5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

Treasury Bonds: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

Treasury Notes: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

U.S. Government Agencies: Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular agency.

Yield: The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity: The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

Yield Curve: The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.