MERCED COUNTY

INVESTMENT POLICY 2017

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Treasurer

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PREFACE

Each issue addressed in this policy is considered to be of timely and significant importance to the administration of the investment portfolio. While some portions of this policy are a restatement of State law, these restatements are integral to the purpose and flow of this policy.

The following statements are intended to insure the achievement of the purpose, goals, and objectives of the investment strategy in an orderly, accurate manner. However, there is no guarantee that problems, errors or losses will not arise in the course of administering the investment of funds.

Unforeseen factors may effect the achievement of the goals and objectives of the portfolio. A list of factors include, but are not limited to, the following: national or international events or crises, deviation of actual cash flow from forecasted cash flow, unexpected demands on cash flow, policies made with regard to investment in local depositories, and errors in data or advice used to make decisions, as well as any other unforeseen aberration or event that may impact local, national or international financial markets, economies or politics which in turn has a decided effect upon the portfolio.

Keeping in mind the obstacles and deterrents in pursuing portfolio goals and objectives, this policy is designed to achieve a reasonable rate of return over an economic cycle, consistent with limited risk and prudent investment practices.

SCOPE

The following investment policy pertains to the pooled operating funds of Merced County and depository agencies. Depository agencies consist of school districts, Merced College, special districts and other local agencies. The County retirement system is an independent CA 1937 Act system and the Treasurer is a trustee on the board. The independent retirement system only deposits short-term liquidity monies in the treasury for retiree payroll. This policy is concerned with the deposit, safekeeping and investment of all funds under the control of the Treasurer, as well as all related transactions and investment activities.

PURPOSE

The purpose of the investment policy is to facilitate accomplishment of the goals and objectives of the Treasurer with regard to the investment of idle funds, to provide a framework within which to carry out the business of administering and investing the idle funds of the Treasury, to improve communications at all levels between those interested in the process of investing and administering the idle funds of the Treasury, and to ensure compliance with legal requirements and policies adopted by the Oversight Committee and Board of Supervisors.

LEGAL COMPLIANCE

All investing and investment decisions shall be made with full compliance to California Government Code § 27000 et seq. and 53600 et seq., as well as any forthcoming amendments or additions to the California Government Code in relation to the investment of local agency idle funds. In addition, the Treasurer may provide further restrictions and guidelines for the investment of idle funds through this Statement of Investment Policy and the Investment Guidelines and Procedures Manual.

GOALS AND OBJECTIVES

PRIMARY GOALS

The Treasurer's primary goals for the investment of idle funds (the portfolio) are in order of priority:

1. **Safety**
   Safety of Principal shall mean the safeguarding of capital through the selection of investments and investing procedures to best protect against loss arising from default, fraud or error. To achieve preservation of principal the portfolio structure will be diversified to mitigate credit risk and market risk.

   Credit Risk: The inherit risk of an issuer(s) ability and willingness to repay interest and principal, which shall be mitigated by diversifying the fund so that the failure of any one issuer would not unduly harm the Fund’s cash flow.

Market Risk: The inherit risk of market value fluctuations due to changes in the general level of interest rates. Because longer maturity fixed-income securities have greater market risk than shorter maturity securities, market risk will be mitigated by establishing a limit for the weighted average maturity. It is recognized in an active portfolio occasional losses on individual securities are inevitable and must be considered within the context of the overall investment return.

2. **Liquidity**
   Liquidity Maintenance shall mean to always have the ability to convert sufficient securities in the portfolio to cash, with little or no loss in value, to cover cash flow needs of the county and its investing agencies, to meet contingency needs.

3. **Yield**
   Yield refers to earning a reasonable rate of return and shall take into consideration current market conditions, the present phase of the market cycle, both present and future cash flow needs, and the other primary goals of Safety and Liquidity Maintenance.

PRUDENCE

The administration of idle funds of the Merced County Treasurer, as a fiduciary trustee, shall be performed in accordance with the prudent investor standard as stated in California Government Code § 27000.3 and 53600.3:

> "When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the County Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing 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 need of the county and other depositors."

MAINTENANCE OF PUBLIC TRUST

As the Treasurer has been entrusted with the safekeeping of Public Monies received from Public Sources, the Treasurer in managing Investment Portfolios shall exercise a high degree of professionalism to insure and sustain public confidence, remembering that both the investment instruments and the methods of transacting investment business are subject to public review and scrutiny.

ETHICS AND CONFLICT OF INTEREST

The Treasurer and all investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The Treasurer and all investment personnel shall disclose to the Treasury Oversight Committee any material financial interests in financial institutions which conduct business with the County of Merced and shall disclose any material financial investment positions which could be related in a conflicting manner to the performance of the County of Merced investment portfolio.

POLICY SUMMATION OF BASIC STRATEGY

The basic investment strategy will be to safeguard the principal of all investments, maintain sufficient liquidity to meet the regular cashflow needs of the Treasury while reserving contingent liquidity to meet unanticipated cashflow demands, and utilize various investment approaches to take advantage of current market yield opportunities. A maximum rate of return will be sought in a manner consistent with the safeguarding *of* principal and meeting liquidity needs.

AUTHORITY

DELEGATION

Annually the Board of Supervisors may delegate to the County Treasurer the authority to invest or reinvest funds of the County of Merced and funds of other depositors in the County Treasury.

Pursuant to California Government Code Sections 27000.1, 53601 and 53635, and Merced County Ordinance No. 1720, as codified at Chapter 5.40 of the Merced County Code, the Treasurer has full responsibility to invest or to reinvest funds under the control of the Treasurer, or to sell or exchange as is desirable to do so. The responsibility to execute investment transactions made by the Treasurer may be further delegated to deputies under the direction of the Treasurer.

RETENTION

The Treasurer shall retain the authority to add to, delete or amend the Investment Policies and the Investment Guidelines as is necessary to facilitate accurate and efficient transactions pertaining to the investment of idle funds, for the best interest of the County.

TREASURY OVERSIGHT COMMITTEE

Pursuant to the addition of Article 6, to Chapter 5 of Division 2 of Title 3 of the California Government Code, the County Treasurer shall create a County Treasury Oversight Committee to promote the public interest by involving depositors in the management of their funds and by enhancing the security and investment return of their funds through the establishment of criteria for the withdrawal of funds. Nothing in this policy shall be construed to allow the County Treasury Oversight Committee to direct individual investment decisions, select individual investment advisors, brokers or dealers, or impinge on the day-to day operations of the County Treasury. The duties of the County Treasury Oversight Committee will be delineated in the Investment Guidelines. In compliance with California Government Code § 27131 and to maintain equity of all depositors, the membership of the County Treasury Oversight Committee shall consist of the following:

MEMBERS

The members of the Treasury Oversight Committee (TOC) shall consist of:

- The County Auditor or Designee
- A Board of Supervisors Designee
- The Superintendent of Schools or his/her Designee
- A College District Designee
- A Special District Designee

- Two Members of the Public with expertise, or academic background, in public finance.

Government Code § 27133 (d) requires limits to be set on the receipt of honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons with whom the County Treasury conducts business by any member of the County Treasury Oversight Committee. These limits may be in addition to the limits set by a committee member's own agency, by state law, or by the Fair Political Practices Commission. TOC Members are prohibited from raising money for the County Treasurer or a Board of Supervisor (with the exception of raising money for their own position) while serving as a member on the committee.

DUTIES OF THE TREASURY OVERSIGHT COMMITTEE (TOC)

The Treasury Oversight Committee (TOC) is required annually to review and monitor the investment policy prepared by the County Treasurer, pursuant to Government Code § 27133, and to cause an annual compliance audit, pursuant to Government Code § 27134.

Established here as policy, the TOC will review and accept the Statement of Investment Policy prepared by the Treasurer in January of each year. Any revisions to the Statement of Investment Policy will also be reviewed and accepted by the TOC prior to submitting any such revisions to the Board of Supervisors for review and acceptance.

The Treasurer will annually submit the Statement of Investment Policy to the Board of Supervisors to be reviewed and accepted at a public meeting as required by Government Code § 53646. This section also requires that any change in the policy be reviewed and accepted by the Board of Supervisors at a public meeting. As a matter of policy, the Statement of Investment Policy will be accepted by the TOC prior to being submitted to the Board of Supervisors in January of each year.

ANNUAL AUDIT

As of the end of each fiscal year, the TOC shall cause an annual audit to be conducted to determine compliance with the Statement of Investment Policy and an audit of the interest apportionment. Additionally, the audit may address questions of portfolio structure and risk. The audit findings will be an agendized item at the TOC meeting following the release of the audit. The cost of the audit will be charged against the Treasurer's budget and will be included in the investment expenses which are deducted from earnings prior to interest apportionment. A copy of the annual audit will be distributed pursuant to Government Code § 53686.

MEETINGS

The TOC meets on a quarterly basis. These meetings are held within 30 days after the end of each quarter. Meeting dates and times are established at the beginning of each calendar year.

ADMINISTRATION

SAFEKEEPING

Investments are held in a third-party safekeeping custodial account designated by the Treasurer to provide the public with the highest degree of protection with regard to investments held in the portfolio. The delivery-versus-payment (DVP) purchase procedure will be used. Third-party safekeeping refers to holding securities in a trust account by an entity other than the party through whom the investment was purchased. The DVP refers to the practice of using an escrow procedure to process a transaction through the third-party safekeeper. This practice ensures that the transaction settles after the transaction terms and conditions of the parties involved have been met.

COLLATERALIZATION

Repurchase agreements are required to be collateralized by securities or cash authorized under California Government Code § 53601.7(e). In order to anticipate market changes and provide a level of security the collateralization level will be a minimum of 102% of market value of the principal and accrued interest and shall be marked-to-market no less frequently than weekly. A Master Repurchase Agreement is required for the authorized bank and broker/dealer accounts for all daily cash surplus (see Investment Terminology).

PERFORMANCE BENCHMARK

The investment portfolio is constructed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, matching the investment risk controls and cash flow requirements, thus preserving capital, meeting liquidity, and providing yield. The Treasurer's investment strategy is to manage the portfolio with less risk than a benchmark comparable index and to use economies of scale to invest and administer the program at a reasonable cost. As a result the portfolio is benchmarked against both the BofA Merrill Lynch 1-3 Year US Treasury Index and the California Local Agency Investment Fund (LAIF).

INTERNAL CONTROLS *& PROCEDURES*

The Treasurer has established a system of written internal controls, which is reviewed annually with the County's independent (external) auditor. The controls are designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions of employees of the Treasurer's Office. The Treasurer shall evaluate any audit reports in a timely manner with the Treasury Oversight Committee. The quarterly audit reports of the Treasury shall be provided as required by Government Code § 26920 through 26922. Daily compliance of the investment portfolio shall be performed by the Treasurer's Compliance Division. Compliance will be determined on a fair market value basis. Cash held at the bank will not be included in the pool balance. All agreements, statements, and trade packets will be subject to review annually by auditors in conjunction with their audit.

The Treasurer has procedures for the investment process that are consistent with this policy and are statutorily compliant. Procedures include safekeeping, master repurchase agreements, wire transfer agreements, collateral and depository agreements, banking service contracts and other investment and banking related activities. Such procedures include explicit delegation of authority to personnel responsible for investment transactions.

The Treasurer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the County Treasurer is not present. No investment personnel may engage in an investment transaction except as provided under terms of this policy and the procedures established by the County Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of Treasury personnel.

COMPETITIVE BIDDING

All transactions will be made through the use of competitive bids whenever possible. At least two (2) competitive bids will be solicited for each transaction. If the solicitation of two bids is not feasible or practical, the reason will be stated in the transaction documentation. Exceptions to the use of competitive bids may include, but are not limited to the following:

1. Market circumstances where time constraints would make the bid process impractical.
2. Investments possessing distinctive characteristics.
3. Overnight deposits where time constraints may not accommodate the bid process.
4. Transactions in which investments are actively traded and priced by market information services such as Telerate and Bloomberg, where current market price can be readily determined.

REPORTING

California Government Code (GC) § 53646 require the following regarding reporting:

> The Treasurer shall annually render a Statement of Investment Policy to the Oversight Committee and to the Board of Supervisors. The Treasurer shall render quarterly an Investment Report to the County Executive Officer, the County Auditor, Board of Supervisors and Oversight Committee within 30 days following the end of the quarter covered by the report.

As required by Government Code (GC) § 53646, the quarterly report will include:

1. A ledger of daily transactions for the quarter;

2. A list of holdings as of the last day of the quarter which notes:
    a. Type of Investment
    b. Issuer
    c. Date of Maturity
    d. Par Amount
    e. Book Value
    f. Market Value at Quarter-end (and Source of Value);

3. A statement of compliance with the Statement of Investment Policy or an explanation of any variance;

4. A statement of the pool's ability to meet the expenditure requirements for the next six months or an explanation of why the pool cannot meet the expenditure requirements.

A monthly transaction report will be submitted to the legislative body per Government Code § 53607.

As deemed appropriate, the Treasurer or the TOC may issue additional statistical or narrative reports.

MARKED-TO-MARKET

Marked-to-Market is the requirement of the AICPA's pronouncement GASB 31 which dictates that portfolios disclose the Fair Market Value of investments on a given date. Fair Market Value can be determined by an independent agency. The cost of an independent agency is significant and we have determined that the portfolio valuation will be marked-to-market using our custodian's fair market valuation rather than incurring an additional vendor cost. Our Custodian utilizes several market pricing services, including Merrill Lynch, Bloomberg, and others.

INTEREST APPORTIONMENT

Historically, Interest Apportionment was calculated using the cash basis method of accounting. Effective July 1, 1999, the Interest Apportionment changed from the cash basis to the modified accrual basis method of accounting. All interest earnings, amortization earnings, and coupon payments are deposited into Trust Fund # 2070 Treasurer's Interest. A modified journal entry is processed to recognize the accrued interest and amortization for the quarter. Departmental treasury costs are recovered quarterly based on actual treasury expenditures. After all expenditures are netted against earnings, the net revenues are distributed to the Pool Participants through the following Interest Apportionment process.

At end of month, the Auditor-Controller's department requests report FM-0606 Average Daily Cash Balances and report FM-0606-A Interest Apportionment Control Report.

FM-0606 Average Daily Cash Balances shows each fund's cumulative balance, number of days the fund had a balance, and average balance for each fund. The cumulative balance is computed by adding the daily balances of the fund. The average balance is the cumulative balance divided by the number of days the fund had a balance.

FM-0606-A Interest Apportionment Control Report shows the Apportionment Total which was posted to each fund. The Apportionment Total is calculated as follows:

(1) First, the system determines the fund's percent of the pool by using the following

figures calculated on report FM-0606 Average Daily Cash Balance: Cumulative balance for the fund divided by the total cumulative balance of all funds.

(2) Next, the fund's percent of the pool is multiplied times the Net Revenues. The result is the fund's Interest Apportionment for the quarter.

VOLUNTARY DEPOSITORS

A voluntary depositor is any local agency who has applied for and been granted participation in the county investment pool. The local agency's treasurer or other official responsible for their funds has determined that they have excess funds which are not required for immediate use. Once the excess funds are identified, the local agency's legislative or governing body must adopt a resolution that authorizes the investment of the funds pursuant to § 53684, and with the consent of the County Treasurer, deposit the excess funds in the county treasury for the purpose of investment by the County Treasurer pursuant to GC § 53601 or 53635. The resolution shall specify that the local agency acknowledges and is willing to be bound by the withdrawal provisions of GC § 27136, and that administrative charges will be deducted by the Treasurer as permitted by GC § 53684(b) and 27013. The Treasurer shall approve or disapprove such agency's request in writing.

WITHDRAWAL OF FUNDS

Withdrawals for claims and accounts payable are to be made by auditor's warrant. Various forms of electronic transfer can be used to make withdrawals for the purpose of payroll, bond and note related transactions and to transfer investment funds.

The Treasurer's Investment Policy establishes guidelines for unusual or unexpected withdrawal of cash and provides for adequate liquidity to cover day-to-day operations of pool depositors. On occasion, depositors have need of withdrawals that exceed those normally associated with operations. It is essential that all agencies inform the Treasurer of anticipated withdrawals in excess of $2,000,000 as far in advance as possible. To accommodate such withdrawals, the Treasurer-Tax Collector's Office has established written notification requirements as set forth below to allow for adjustments to the liquidity position of the Portfolio.

The notification required is as follows:
Withdrawals of up to $2,000,000 - 24 hours
Withdrawals of $2,000,001 and more - 72 hours

Failure to adhere to these requirements may result in payment being delayed by the Treasurer-Tax Collector's office.

Pursuant to CA Government Code § 27136, prior written notice is required for withdrawals from the county treasury pool for the purpose of investing or depositing funds outside of the county treasury. The written notice may be submitted via email or fax, with original request to follow. The Treasurer will evaluate each proposal to ensure that the request will not adversely affect the interest of the other depositors in the Treasury. Should the Treasurer determine that a withdrawal for the purpose of investing or depositing funds (including reinvestment of note proceeds) outside of the county treasury would adversely affect the interest of other depositors in the pool, the Treasurer may utilize either: the provisions of Government Code § 53684 to require 30 days written notice prior to any withdrawals, or honor the withdrawal at the current market value of the portfolio. Approval of the withdrawal does not constitute approval or endorsement of the investment.

BUSINESS CONTINUITY PLAN

Merced County is located in a severe flood plain as determined by the California Office of Emergency Services. Due to the concern that mission critical functions cannot be performed, the Merced County Treasury has established a Continuity of Operations Plan (COOP) for conducting Treasury business. In the event the primary place of business is inaccessible, please refer to the Merced County COOP Plan.

Located within the Treasury department is one (1) separate and secure workstation used for the sole purpose of accessing Wells Fargo CEO web portal for wire transfers. All other information is located on the County server.

In the event we are unable to conduct normal business operations, authorized personnel shall activate the Merced County Treasury's Continuity of Operations Plan (COOP) using three (3) secure laptops at remote locations. These secure laptops are programmed to access the Wells Fargo CEO web portal and a secure cloud portal using Microsoft OneDrive for Business only, to perform the mission critical functions.

Ongoing testing of the Merced County Treasury's COOP is performed to ensure preparedness should an emergency occur.

The Plan provides for continuity of mission critical functions of the Treasury to be initiated within 0-12 hours of an event.

Mission critical functions for the Treasury have been identified as follows:

1. Project daily cash flow and ensure sufficient liquidity to meet the needs of the pool participants.
2. Reconcile daily cash with bank.
3. Reconcile daily cash to OneSolution General Ledger.
4. Reconcile daily checkbook.
5. Prepare bank deposit.
6. Evaluate Positive Pay and make decision to honor or reject.
7. Initiate wires and transfer funds as required.
8. Review and approve initiated funds wires.
9. Monitor investment portfolio and make changes as required.

In all cases, the safety of Treasury personnel is paramount. In no event will the alternate locations or processes be employed if doing so will endanger any person at any time.

AUTHORIZED INVESTMENTS & DIVERSIFICATION

Pursuant to CA Government Code § 27000 - Prudence definition,
§ 53600 - Local agency definition, § 53601 - Authorized investments
(See Appendix 1 for complete investment listing)

The Treasurer has established the following self-imposed restrictions which exceed the statutory requirement to ensure diversification is maintained in the portfolio. The diversification is critical to reduce risks associated with investment concentration, quality and duration. The portfolio's approved Weighted Average Maturity (WAM) is not to exceed 730 days with no more than 10% held in one issuer's name. Due diligence is performed for approval of all government pools and money market accounts for short-term and overnight liquidity accounts*. Laddering, fed fund targets and other opportunities are continuously evaluated to define the strategy for the portfolio.

Government Code § 53601 INVESTMENT TYPES & RESTRICTIONS*			**TREASURER IMPOSED**
TYPE	**MAXIMUM TERM**	**MAXIMUM %**	**RESTRICTIONS**
(a) Local Agency Bonds	5 years	No limit	30%
(b) USTN, Bonds, Bills,...	5 years	No limit	50%
(c) Reg'd State Wts, TN Bonds	5 years	No limit	30%
(e) Local Agency Bonds, Notes,..	5 years	No limit	75%
(f) Agency Obligations… FNMA, FHLB...	5 years	No limit	75%
(g) Bankers Acceptances	180 days	40%; limited to 30% in one specific bank	25%; limited to10% in one specific bank
(h) Commercial Paper	270 days	25%; limited to 10% in one single corp.issuer	20%; limited to 10% in one single corp.issuer
(i) Certificates of Deposits	5 years	30%	30%
(j) Repurchase Agreements *	1 years	20%	20%
(k) Corp. Notes (MTNs) *	5 years	30%	30%
(q) Supranationals –Int'l Bk for Recons & Devel (IBRD), Int'l Fin Corp (IFC) or Inter-American Dev Bk (IADB)	5 years	30%	30%
LAIF **	not specified	50MM	50MM or 25%

Due to fluctuations in the portfolio's balance, compliance testing is applicable on the day of purchase.

* THE COUNTY TREASURER WILL NOT PURCHASE any mortgage backed or asset backed securities, reverse repurchase agreement, strips or zero interest accrual investments, with the exception of any exposure in money markets purchased for the portfolio.

** The County has authority over two LAIF accounts; a general pool account and a Merced County Office of Education (MCOE) account.

AUTHORIZED BROKERS/DEALERS & DEPOSITORIES

Brokers, Dealers and Banks approved for transacting business with the Merced County Treasurer*'s* office must complete a detailed questionnaire and provide audited financial statement, references and requested financial institution information. A review and approval is required before any investment services can be considered. On-going evaluations are completed on all approved broker/dealer/depositories relationships on a regular basis as deemed necessary. A current list is maintained in the Treasury and available upon request.

1. Institutions designated as primary dealers by the Federal Reserve Bank of New York, or

2. Banks identified as one of the top 100 banks in the world, or

3. Banks, brokers or dealers whose transactions are guaranteed by one of the top 100 banks in the world, or

4. Banks, brokers or dealers whose parent company is one of the top 100 banks in the world.

6. Prohibited from making Political Contributions to County officials.

6. All authorized brokers of the County certify that they have reviewed the California Government Code § 53600 et seq. and the County's Investment Policy and that all securities offered to the Merced County *Treasury* will comply with the provisions of the Code and Investment Policy.

7. The Treasurer has posted the "Independent Registered Municipal Advisor Exemption Notice" on the webpage at www.mercedtaxcollector.org under the Treasury tab.

REVIEW AND ANALYSIS OF PROSPECTIVE INVESTMENTS

Whenever possible, investment vehicles shall be selected according to specific needs and portfolio guidelines, as well as economic and market conditions. Due to the complexity of the various investment instruments available and uncertainty of market conditions, the Treasurer may seek professional advice in making investment decisions in order to optimize investment selections.

The portfolio is managed in accordance with Statement No. 40 of the Government Accounting Standards Board for Deposit and Investment Risk Disclosure. The investments shall be diversified by limiting investments to avoid concentration in specific issuer or business sector; limiting investment in securities that have higher credit or liquidity risks; investing in varying maturities; and continuously investing in overnight repurchase agreements, money markets, and the California Local Agency Investment Fund (LAIF).

PUBLIC INQUIRY

The County Treasurer's portfolio and related transactions are a matter of Public Record. Any member of the public may receive a copy of the portfolio or Investment Policy by requesting a copy at the Treasurer's Office. The Treasurer may charge a fee for the copy, as prescribed by law.

MERCED COUNTY TREASURER

LISTING OF
INVESTMENT TERMINOLOGY

ACCRUED INTEREST: The amount of interest that is earned, but unpaid since the last interest payment date.

AGENCY: Securities issued by government-sponsored corporations such as Federal Home Loan Banks (FHLB) or Federal Land Banks (FLB.) Agency securities are exempt from Securities and Exchange Commission (SEC) registration requirements.

AMERICAN CALL: Bonds may be called at any time following the first call or lockout period.

AMORTIZATION: Accounting procedure that gradually reduces the cost value of a limited life or intangible asset through periodic charges to income. It is a common practice to amortize any premium over par value paid in the purchase of bond investments or any discount under par value recognized in the purchase of bond investments.

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

ASSET BACKED SECURITIES (ABS): Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

BANKER'S ACCEPTANCE (BA): Time draft drawn on and accepted by a bank [for up to 6 months], the customary means of effecting payment for merchandise sold in import-export transactions and a source of financing used extensively in international trade. These are time drafts in which a bank "accepts" as its financial responsibility to pay the principal at maturity even if the importer does not. In essence, these are bank obligations collateralized by goods being shipped between an exporter and an importer. With the credit strength of a bank behind it, the banker's acceptance usually qualifies as a MONEY MARKET instrument. The liability assumed by the bank is called its acceptance liability.

BANKER NOTE (BN): Similar to Commercial Paper (debt instrument issued by the Bank's holding company), but the Bank Note is issued directly by the Bank and not the holding company. BNs represent the highest senior debt issued by the bank, second only to Certificate of Deposit holders; highly negotiable and liquid; an allowable and accepted institutional investment form.

BASIS POINT: When a yield is expressed as 7.32%, the digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Example: 0.25% is twenty-five basis points. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

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.

BERMUDA CALL: Bonds may only be called on a pre-determined schedule of call dates. Monthly, Quarterly, Annually etc.

BID PRICE: The price at which a buyer offers to buy a security.

BOND: A long-term debt instrument in which the investor lends money to the bond issuer, who agrees to pay a stated rate of interest over a specified period of time. Very simply, a bond is a promissory note which is traded in the financial markets. The investor's position is that of lender.

BOND RATING: A rating selected from a scale which indicates the relative likelihood of default.

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most money market securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities, and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). These securities do not receive physical certificates.

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 and is compensated for his/her service.

CALL OPTION: A contract which allows the holder to buy a specified quantity of an asset at a specified price on or within a specified date.

CALLABLE BONDS: Bonds which may be redeemed by the issuing company prior to the maturity date.

CANARY CALL: Bonds may be called during an open call period, if not called on the last date, then they become non callable to maturity.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a capital asset.

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

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement or securities pledged by a financial institution to secure deposits of public moneys. Repurchase agreements are required and must be executed with approved broker-dealers, collateralized with either: (1) U.S. Treasuries or Agencies with a market value of 102% for collateral marked to market daily; or (2) money market instruments which are on the approved list of the County and which meet the qualifications of the Policy with a market value of 102%.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the County. It includes five combined statements for each individual fund necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed.

COMMERCIAL PAPER (CP): Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Such instruments are unsecured and usually discounted, although some are interest-bearing. Investors (actually lenders, since commercial paper is a form of debt) like the flexibility and safety of an instrument that is issued only by top-rated concerns and is nearly always backed by bank lines of credit. Both Moody and Standard & Poor assign ratings to commercial paper.

COUPON OR COUPON RATE: The rate at which a bond pays interest. Stated as a percentage of par and computed out to a dollar amount. Example: A note with a coupon of 6% pays $30,000 interest per million dollars of par every six months, or $60,000 annually.

CURRENT YIELD: The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

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

DEBENTURE: A bond secured only by the general credit of the issuer.

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

DERIVATIVE: A security whose interest rate of principal amount may vary and is determined by a market index or a combination of market indexes.

DISCOUNT: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for the full face value of the investment.

DIVERSIFICATION: An investment strategy designed to spread the risk in a portfolio by dividing investments among different sectors, industries and companies.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the "average maturity" of an investment portfolio using each investment's maturity weighted by size of that investment.

EUROPEAN CALL: Bonds may only be called on one pre-determined date.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit.

FED FUNDS: The settlement is to be consummated with funds on deposit at the Federal Reserve Bank; and thus available the same day. All government securities are traded on Fed Funds; also referred to as "same day funds".

FEDERAL FUNDS RATE: Interest rate at which banks lend federal funds to each other.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks that lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder owned corporation.

FEDERAL OPEN MARKET COMMITTEE (FOMC): This committee sets Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: A U.S. centralized banking system which has supervisory powers over the 12 Federal Reserve banks and about 6,000 member banks.

FIXED-INCOME SECURITIES: Securities which return a fixed income over a specified period.

FLOATING RATE NOTE: A debt security whose interest rate is reset periodically (monthly, quarterly, annually) and is based on a market index (e.g. Treasury bills, LIBOR, ect.).

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, saving and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term “pass-throughs” is often used to describe Ginnie Maes.

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

LIQUIDITY: The speed and ease with which an investment can be converted to cash.

LOCAL AGENCY: County, city, city and county, including a charter city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

MARKET: Refers to the place, physical or electronic, that investment transactions take place. The New York Stock Exchange (NYSE) is a recognized exchange (stock market) with a physical location in New York. The Chicago Board of Trade (CBT) is a recognized exchange (commodities market) with a physical location in Chicago. The “over-the-counter” market is an electronic and phone system used to trade investments which are not traded on recognized exchanges. Bond and money market investments (fixed income securities) are traded on the “over-the-counter” market.

MARKET RISK: The risk that changes in overall market conditions or interest rate may adversely affect current market prices.

MARK-TO-MARKET: The market valuation for every security in a portfolio used in determining Net Asset Value (NAV).

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

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

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

MEDIUM TERM NOTE (MTN): Debt securities issued by a corporation or depository institution with a maturity ranging from nine months to five years. The term “medium-term notes” refers to the time it takes for an obligation to mature, and includes other corporate debt securities originally issued for maturities longer than five years, but which have now fallen within the five year maturity range. MTNs issued by banks are also called “bank notes.”

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

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invests in a variety of short-term money market instruments. The Net Asset Value (NAV) of these funds should remain at $1.00; however, it is not guaranteed.

MUNICIPAL DEBT: Issued by public entities to meet capital needs.

NATIONALLY RECOGNIZED RATING SERVICES: Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.) The primary rating agencies include Standard & Poor's Corporation; Moody's Investor Services, Inc.; Fitch Investors Service; Duff & Phelps Investment Service; Thompson Bank Watch and International Bank Credit Analyst.

NEGOTIABLE CERTIFICATE OF DEPOSIT (CD): Large-dollar-amount, short-term certificate of deposit. Such certificates are issued by large banks and bought mainly by corporations and institutional investors. They are payable either to the bearer or to the order of the depositor, and, being NEGOTIABLE, they enjoy an active SECONDARY MARKET, where they trade in round lots of $5 million.

NET ASSET VALUE (NAV): A per-share valuation of a mutual fund based on total assets minus total liabilities.

NON CALLABLE: Bond that is exempt from any kind of redemption for a stated time period. Also known as a Bullet Bond.

OFFER PRICE: The price asked by a seller of securities.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy.

PAR VALUE: The amount of principal which must be paid at maturity; also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

PLAIN VANILLA: Non-derivative investments which are not leveraged and whose interest rates do not change.

PORTFOLIO: A group of securities held by an investor.

PREMIUM: The difference between the par value of a bond and the market value of the bond, when the market value is above par.

PRICE: The percentage of par at which a security is bought and sold. Corporate debt is traded in denominations of 100th of a percent. Government debt is traded in denominations of 32nds of a percent.

PRICE RISK: The risk that the price of a bond sold prior to maturity will be less than the price at which the bond was originally purchased.

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.

PRIME RATE: The interest rate banks charge the biggest borrowers with the best credit ratings.

PRINCIPAL: The face value or par value of an investment.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PSA MASTER REPURCHASE AGREEMENT: A required written contract covering all future transactions between the authorized bank and the Treasurer to repurchase agreements that establish each party's rights in the transactions (see Collateral & Repurchase Agreement).

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

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

RECEIVABLE-BACKED SECURITIES: Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

RECEIVABLE PASS-THROUGH CERTIFICATE: A debt obligation that is backed by a portfolio of receivables, normally issued by a bank of financial institution. The interest and principal of the obligation is paid out of the cash flow generated by the receivables portfolio.

REGISTERED STATE WARRANT: A short-term obligation of a state governmental body issued in anticipation of revenue.

REINVESTMENT RISK: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

REPURCHASE AGREEMENT (RP OR REPO): The purchase of securities, on a temporary basis, with the seller's simultaneous agreement to repurchase the securities at a later date at a specified price that includes interest for the buyer's holding period. In essence, this is a collateralized investment whereby the security "buyer" lends the "seller" money for the period of the agreement.

REVENUE ANTICIPATION NOTES OR RANs: Notes issued for thirteen months or less which are used to finance cashflow in anticipation of future tax revenue. Used by agencies having cashflow gaps between revenues and expenses that requires short-term interim financing. Also see Tax Anticipation Notes (TANs) and Tax and Revenue Anticipation Notes (TRANs).

RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

SAFEKEEPING: The holding of securities in a segregated account by a custody agent or trustee. Transactions are escrowed through these accounts by the custody agent or trustee. Safekeeping services are typically provided by banks and other financial institutions.

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

SECURITIES & EXCHANGE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SETTLEMENT DATE: The date on which the purchase or sale of securities is executed. For example, in a purchase transaction, the day securities are physically delivered or wired to the buyer in exchange for cash is the settlement date.

SUPRANATIONALS: International institutions that provide development financing, advisory services and/or other financial services to their member countries to achieve overall goal of improving living standards through sustainable economic growth. Key features are Triple-A rated, 0% risk weighting with Basle II and III, Financial strength based on diversified, sovereign shareholders, conservative risk management, quality loan portfolio (preferred creditor status), substantial liquidity and consistent profitability strong capitalization.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, ect.) and Corporations that have imbedded options (e.g., call features, step-up coupons) 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.

TAX ANTICIPATION NOTES OR TANs: Notes issued for thirteen months or less which are used to finance cashflow in anticipation of future tax revenue. Commonly used by California local governments whose primary revenues are property taxes which are collected in December and April. Also see Revenue Anticipation Notes (RANs) and Tax and Revenue Anticipation Notes (TRANs).

TAX AND REVENUE ANTICIPATION NOTES OR TRANs: Notes issued for thirteen months or less. They are a combination of Tax Anticipation Notes (TANs) and Revenue Anticipation Notes (RANs). Also see Revenue Anticipation Notes (RANs) and Tax Anticipation Notes (TANs).

TRADE DATE: The date and time corresponding to an investor's commitment to buy or sell a security.

TREASURIES: Securities issued by the U.S. Treasury and backed by the FULL FAITH & CREDIT of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds. The income from Treasury securities is exempt from state and local, but not federal taxes.

TREASURY BILLS: Non-interest bearing discount securities with maturities under one year issued by the U.S. Treasury to finance the national debt.

TREASURY NOTES (USTN): Interest-bearing obligations issued by the U.S. Treasury with maturities ranging from two to ten years from the date of issue.

TREASURY BONDS: Interest-bearing obligations issued by the U.S. Treasury with maturities that range from ten to thirty years from date of issue.

YANKEE BANK: A foreign bank with operations in the U.S. Bonds issued by these banks are called Yankee bonds.

YIELD: The annual rate of return on a debt investment computed as though held to maturity expressed in %.

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

ZERO-COUPON BONDS/U.S. TREASURY STRIPS: A bond which represents ownership of a single coupon or principal payment due on a U.S. Treasury bond. "Zero" or "strips" mature at face value at a specified date in the future and make no payments until that date. They always sell at a discount from face value.