INVESTMENT POLICY 17.01.030

SUBJECT: INVESTMENT POLICY	NUMBER: 17.01.030
RESPONSIBLE OFFICER: City Manager	EFFECTIVE DATE: 6/20/2023
POLICY OWNER: Administrative Services Department	LAST UPDATED: 10/30/2017
POLICY CONTACT: CFO, Administrative Department, City Treasurer	APPROVED: City Manager Harry Black

POLICY

It is the policy of the City of Stockton to invest funds in a manner which will provide foremost for the safety of principal while meeting the short and long-term cash flow demands of the City and conforming to all statutes governing the investment of City funds.

I. Scope

This Investment Policy applies to all cash, operating, and surplus funds included within the City's audited financial statements and held directly by the City.

Bond proceeds shall be invested in accordance with the governing bond documents (e.g. official statement and trust indenture). Proceeds of City bonds or other debt issues in possession of a trustee or fiscal agent are not considered to be part of the financial assets covered by these Investment Policy guidelines.

Also excluded from this Policy are any deferred compensation, retirement, Section 115 Trust, and Other Post Employment Benefit Plans. Investments related to these plans are not subject to this policy since third-party administrators or trustees manage the funds, and, either the individual plan participants or outside investment managers or trustees direct investment selections under the guidelines established by the plan documents.

II. 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 affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Investments shall be made in accordance with the "Prudent Investor" standard, as described in California Government Code Section 53600.3, which states: "Except as provided in subdivision (a) of Section 27000.3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. 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 of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

III. Objectives

Within the overriding requirement of compliance with all Federal, State and local laws governing the investment of moneys under the control of the Treasurer, and as specified in the California Government Code Section 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

1. Safety. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio.
2. Liquidity. The investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.
3. Return on Investment. The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow requirements.

IV. Delegation of Authority

California Government Code Section 53607 allows for the delegation of investment activities to the Treasurer of the City for periods of one year. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials, and their procedures in the absence of the Treasurer. The delegation, subject to review, is renewable on an annual basis and is to be included as part of the adoption of the annual budget to have the authority in place at July 1 of each year.

The Treasurer may delegate the day-to-day execution of investments to a Securities and Exchange Commission (SEC)-registered investment advisor, via written agreement approved by City Council. The Advisor, in coordination with the Treasurer, will manage the City's investment portfolio in accordance with this Investment Policy, the stated investment objectives of the City, and any such other written instructions provided by the Treasurer. The Advisor will also assist in security settlement.

V. Ethics and Conflicts of Interest

The Treasurer and any designated employees are prohibited from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions, or which could give the appearance thereof. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business to the Treasurer. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Furthermore, these same individuals are prohibited from undertaking personal investment transactions with any individual with whom business is conducted on behalf of the City. The State of California Fair Political Practices Commission Statement of Economic Interests, Form 700, shall be completed on an annual basis by the Treasurer and any designee of the Treasurer.

VI. Internal Controls

The Treasurer is responsible for establishing and maintaining a control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. Internal controls shall separate transaction authority from accounting and record keeping, safekeep assets, and maintain written records for all investments and wire transfers.

A. Objectives of Internal Control

Internal control is the plan of the organization and all the related systems established by management's objective of ensuring, as far as practicable:

- Orderly and efficiently conduct of its business, including adherence to management policies.
- Safeguarding of assets.
- Prevention and detection of errors and fraud.
- Accuracy and completeness of the accounting records; and
- Timely preparation of reliable financial information.

An internal control system, however elaborate, can provide only reasonable assurance that the objectives are met. Internal controls are reviewed periodically to ensure effectiveness.

VII. Reporting

A. Monthly: As described in California Government Code Section 53607, a report of investment transactions will be made to the City Council every month.

B. A report shall be rendered to the City Manager, City Council, and City Auditor at least four times per fiscal year and shall include:

- A complete description of the portfolio, the type of investments, the issuers, maturity dates, par and dollar amounts invested on all securities, the current market values of each component of the portfolio, the source of the portfolio valuation, investments, and monies held by the City.
- A description of any of the City's funds, investments, or programs under the management of contracted parties, including lending programs.
- The following certifications:
  - All investment actions executed since the last report have been made in full compliance with the Investment Policy.
  - The City of Stockton will meet its expenditure obligations for the next six months as described in California Government Code Section 53646(b)(3).

C. Both monthly and quarterly reports shall be made publicly available in the City Clerk's Office, on the City Website, or other appropriate means.

VIII. Authorized and Suitable Investments

The City's investments are governed by California Government Code, Sections 53600, et seq. Within the assets permitted by the Code; the City seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. All percentage holding limits and rating requirements listed in this section apply at the time the security is purchased. A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment.

Any investment currently held at the time the policy is adopted which does not meet the new policy guidelines can be held until maturity, and shall be exempt from the current policy. At the time of the investment's maturity or liquidation, such funds shall be reinvested only as provided in the current policy.

An appropriate risk level shall be maintained by primarily purchasing securities that are of high quality, liquid, and marketable. The portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers.

Securities with term to maturity greater than 5 years shall not exceed 30% of total portfolio value.

A. Municipal Securities including Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

   Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

   Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

   - The securities are rated in a rating category of "A" or the equivalent or higher by at least one nationally recognized statistical rating organization ("NRSRO").
   - No more than 5% of the portfolio may be invested in any single issuer.
   - No more than 30% of the portfolio may be in Municipal Securities.
   - The maximum maturity does not exceed ten (10) years.

B. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.
   - There are no limits on the maturity, dollar amount or percentage that the City may invest in U.S. Treasuries

C. Federal Agencies or United States Government-Sponsored Enterprise (GSE) obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
   - Includes agency-backed mortgage-backed securities, mortgage pass-through securities, and collateralized mortgage obligations.
   - There are no limits on the maturity, dollar amount, or percentage that the City may invest in Federal Agency or Government-Sponsored Enterprises (GSEs), provided that:
   - No more than 20% of the portfolio may be invested in a federal agency or GSE issued mortgage-backed securities, mortgage pass-through securities, and collateralized mortgage obligations.

D. Banker's Acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.

- Issued by institutions which have short-term debt obligations rated "A-1" or higher by at least one NRSRO; or long-term debt obligations which are rated in a rating category of "A" or the equivalent or higher by at least one NRSRO, provided that:
- No more than 40% of the portfolio may be invested in Banker's Acceptances.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed 180 days.

E. Commercial Paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):

(1) The entity meets the following criteria:

(A) Is organized and operating in the United States as a general corporation.

(B) Has total assets in excess of five hundred million dollars ($500,000,000).

(C) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.

(2) The entity meets the following criteria:

(A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.

(B) Has program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.

(C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

Commercial paper that meets the above requirements is permitted, provided that:

- The securities are rated "A-1" or higher by at least one NRSRO.
- No more than 40% of the portfolio may be invested in commercial paper.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed 270 days.

F. Negotiable Certificates of Deposit (NCDs), issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank, provided that:

- The amount of the NCD insured up to the FDIC limit does not require any credit ratings.
- Any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated "A-1" or higher by at least one NRSRO; or long-term obligations rated in a rating category of "A" or the equivalent or higher by at least one NRSRO.
- No more than 30% of the total portfolio may be invested in NCDs.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

G. Federally Insured Time Deposits (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions, provided that:

- The amount per institution is limited to the maximum covered under federal insurance.
- No more than 20% of the portfolio will be invested in a combination of federally insured time deposits, collateralized time deposits and Certificate of Deposit Account Registry Service (CDARS).
- The maximum maturity does not exceed five (5) years.

H. Collateralized Time Deposits (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with securities in accordance with California law, provided that:

- No more than 20% of the portfolio will be invested in a combination of federally insured time deposits, collateralized time deposits, and CDARS.
- The maximum maturity does not exceed five (5) years.

I. Certificate of Deposit Placement Service (CDARS), provided that:

- No more than 20% of the total portfolio may be invested in a combination of federally insured time deposits, collateralized time deposits, and CDARS.
- The maximum maturity does not exceed five (5) years.

J. Collateralized Bank Deposits. City's deposits with financial institutions will be collateralized with pledged securities per California Government Code, Section 53651.

K. Repurchase Agreements collateralized with securities authorized under California Government Code, maintained at a level of at least 102% of the market value of the Repurchase Agreement. There are no limits on the dollar amount or percentage that the City may invest, provided that:

- Securities used as collateral for Repurchase Agreements will be delivered to an acceptable third party custodian.
- Repurchase Agreements are subject to a Master Repurchase Agreement between the City and the provider of the repurchase agreement. The Master Repurchase Agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association.
- The maximum maturity does not exceed one (1) year.

L. State of California Local Agency Investment Fund (LAIF).
- The City may invest up to the maximum amount permitted by LAIF.
- LAIF's investments in instruments prohibited by or not specified in the City's policy do not exclude the investment in LAIF itself from the City's list of allowable investments, provided LAIF's reports allow the Treasurer to adequately judge the risk inherent in LAIF's portfolio.

M. California Asset Management Program

N. Medium Term Notes (MTNs) defined 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, provided that:

- The securities are rated in a rating category of "A" or the equivalent or higher by at least one NRSRO.
- No more than 30% of the total portfolio may be invested in MTNs.
- No more than 5% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

O. A pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum remaining maturity of five years' or less, provided that:

- The securities are rated in a rating category of "AA" or the equivalent or higher by a NRSRO.
- No more than 20% of the total portfolio may be invested in these securities.
- No more than 5% of the portfolio may be invested in any single Asset-Backed security issuer.
- The maximum legal final maturity does not exceed five (5) years.

P. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.). Money market funds eligible under this paragraph are restricted to those which invest solely in US Government and Agency securities, provided that:

- Such Funds meet either of the following criteria:
  A. Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
  B. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California Government Code, Section 53601 and with assets under management in excess of $500 million.
- No more than 20% of the total portfolio may be invested in Money Market Funds.

Q. Supranational, provided that:

- Issues are US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.
- The securities are rated in a rating category of "AA" or the equivalent or higher by a NRSRO.
- No more than 30% of the total portfolio may be invested in these securities.
- No more than 10% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

IX. Review of Investment Portfolio

All securities purchased by the City must be in compliance with Section VIII Authorized and Suitable Investments at the time of purchase. Because some securities may not comply with Section VIII Authorized and Suitable Investments subsequent to the date of purchase, the Treasurer shall at least annually review the portfolio to identify those securities that do not comply. Any investment currently held that becomes non-compliant due to a change of the policy after its acquisition will not have to be sold immediately. As long as investments are compliant at the time of purchase, they are acceptable to hold to maturity if that is the Treasurer's decision. It is not, however, acceptable to reinvest the proceeds of those maturities in any investment that does not meet the most current Investment Policy guidelines. The Treasurer shall establish procedures to report to the City Council and to its oversight committee, should one exist, any incidences of noncompliance identified through the review of the portfolio.

X. Investment Pools/Mutual Funds

A thorough investigation of any permitted pool/fund is required prior to investing, along with periodic due diligence reviews at least annually. The prospectus, program guide or offering statement shall be reviewed to ensure compliance with the following criteria:

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.
8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

XI. Collateral Requirements

California Government Code Sections 53652 and 53667 require depositories to post certain types and levels of collateral for public funds on deposit above the FDIC insurance amounts. The collateral requirements apply to bank deposits, both active (checking and savings accounts) and inactive (non-negotiable time certificates of deposit), and to repurchase agreements.

The City chooses to limit collateral to the following: U.S. Treasuries and Federal Agency Obligations. Collateral will always be held by an independent third party with whom the City 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 may be granted.

XII. Authorized Financial Institutions and Dealers

A. For brokers/dealers of government securities and other investments, the Treasurer shall select only brokers/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, and/or Financial Industry Regulatory Authority, Inc. (FINRA). Before engaging in investment transactions with a broker/dealer, the Treasurer shall obtain a signed verification form that attests the individual reviewed the City's Investment Policy, and intends to present only those investment recommendations and transactions to the City that is appropriate under the terms and conditions of the Investment Policy.
B. The City may engage the services of one or more external managers to assist in the management of the City's investment portfolio. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. External managers may use their own list of approved broker-dealers. Such managers must be registered under the Investment Advisers Act of 1940.
C. Public deposits shall be made only in qualified public depositories within the State of California as established by State law. Deposits shall be insured by the Federal Deposit Insurance Corporation (FDIC), or, to the extent the amount exceeds the insured maximum, shall be collateralized with securities in accordance with State law.
D. The Administrative Services Department shall verify investment trades against the bank transactions and broker confirmation tickets to ensure accuracy. On a monthly basis, the custodial asset statement shall be reconciled with the month end portfolio holdings.

XIII. Maximum Allowable Maturity of Investments

The investment program may include investments with maturities beyond five years, if in the judgment of the Treasurer, such investments should result in a more favorable rate of return for the

City. Per California Government Code Section 37354, donated securities are not subject to maturity limits. Investments maturing beyond a five-year horizon should not exceed 30% of the total portfolio value at any given time. Investments of greater than five years shall be permitted for US Treasury, US Agency or GSE obligations, and municipal securities, as described in Section VIII Authorized and Suitable Investments, paragraphs A, B and C. Additionally, investments in City Variable Rate obligations, with maturities greater than five years, may be made when IRS and SEC guidelines permit. For purposes of compliance with this Policy, an investment's term or remaining maturity shall be measured from the settlement date to final maturity.

XIV. Mitigating Risk in the Portfolio

A. <u>Credit Risk</u>
- The City will diversify its investments to diminish the credit risk resulting from concentrations in any one non-governmental issuer.
- If a security owned by the City is downgraded to a level below the quality required for purchase by this Policy, the Treasurer shall review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

B. <u>Market Risk</u>. While the City recognizes that longer term portfolios achieve higher returns, longer term portfolios also have higher volatility of market values and total return. The City will limit market risk by limiting the concentrations, volume and duration of its longer term investments, as well as limiting them to funds which are not needed for current year cash flow purposes.
- Maturities selected shall provide for stability of income and liquidity.
- Portfolio maturities shall be managed to avoid undue concentration in any specific maturity.
- The City may sell a security prior to its maturity (recording a gain or loss) to diminish the portfolio's exposure to market risk.

C. Diversification is required that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

D. The City may sell a security prior to its maturity (recording a gain or loss) to adjust the portfolio duration or improve the risk structure, liquidity or yield of the portfolio in response to market condition or City needs.

XV. Safekeeping and Delivery

A. To protect against fraud, embezzlement, or losses caused by collapse of individual securities dealers, all securities owned by the City shall be held in safekeeping by the City's custodial bank, a third-party bank trust department, acting as agent for the City under the terms of a custody agreement.

B. All security transactions entered into by the City shall be conducted on a standard delivery-versus-payment basis, which ensures that securities are deposited with the third-party custodian prior to the release of funds. All securities purchased or acquired shall be delivered to the City by book entry, physical delivery or by third-party custodial agreement as required by California Government Code Section 53601. Investments in the State Pool, California Asset Management Program, or money market mutual funds are undeliverable and are not subject to third-party safekeeping requirements.

XVI. Diversification

The City's investments shall be diversified by:

- Limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities).

- Limiting investment in securities that have higher credit risks.
- Investing in securities with varying maturities.
- Continuously investing a portion of the portfolio in readily available funds such as money market funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

XVII. Performance Evaluation and Operations Audit

Investment of City funds is governed by the California Government Code Section 53600, et seq. Within the context of those limitations, the analysis and selection of investments includes prudent investment principals, review of investment performance, current and expected interest rate yields (economic and interest rate trends), diversification, and structured maturity composition to meet necessary cash flow requirements.

The investment performance objective for the portfolio shall be to earn a total rate of return over a market cycle which is approximately equal to the return on a market benchmark which reflects the City's investment objectives and risk preferences.

The Treasurer shall ensure that the City's annual process of independent review by an external auditor will include a review to assure full compliance with this investment policy and a review of acceptable internal controls.

XVII. Investment Policy Adoption

As stated in California Government Code Section 53646(2)(b), the Treasurer may annually render to the City Council a statement of Investment Policy, and any changes thereto, for consideration at a public meeting.

Glossary

AGENCIES: Federal agency securities and/or government-sponsored enterprises (GSEs).

ASK PRICE: The price at which securities are offered.

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

BENCHMARK: A `market index used as a comparative base for measuring the relative performance 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: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER/DEALER: A person or firm in the business of buying and selling securities from/to customers.

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

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report of a public body. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

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

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

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

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

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

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value *(e.g., U.S. Treasury Bills.)* The difference between the discounted purchase price and the maturity value represents the interest earnings on the investment.

DIVERSIFICATION: Dividing investment funds among a variety of sectors, securities, or maturities that offer independent returns.

DURATION: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per entity.

FEDERAL FUNDS RATE: The interest rate at which depository institutions lend reserve balances to other depository institutions overnight. This rate is pegged by the Federal Reserve.

FEDERAL HOME LOAN BANK (FHLB) SYSTEM: A system of 11 regional banks from which local lending institutions across the U.S. borrow funds to finance housing, economic development, infrastructure and jobs. There are approximately 7,100 FHLB System members, including commercial banks, thrifts, credit unions, and insurance companies. Each member is a shareholder in one of the regional FHLBs; each regional Bank is an individual corporate entity, which must meet strict management and capitalization criteria befitting its status as a government-sponsored enterprise.

FEDERAL NATIONAL MORTGAGE ASSOCIATION **(FNMA or Fannie Mae)**: Fannie Mae is a government-sponsored enterprise ("GSE") chartered by Congress. It serves as a stable source of liquidity for purchases of homes and financing of multifamily rental housing, as well as for refinancing existing mortgages. It also supports the liquidity and stability of the U.S. mortgage market primarily by securitizing mortgage loans originated by lenders into Fannie Mae mortgage-backed securities that it guarantees, which are referred to as Fannie Mae MBS.

FEDERAL OPEN MARKET COMMITTEE (FOMC): A committee within the Federal Reserve System (the Fed), that is charged under U.S. law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities. It consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents, who serve on a rotating basis. The Committee meets about 8 times per year to set Federal Reserve monetary policy, including establishing the target for the fed funds rate.

FEDERAL RESERVE SYSTEM: The central bank of the United States. It was created by Congress and consists of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 7,000 commercial banks that are members of the system. Its role is to conduct the nation's monetary policy, maintain the stability of the financial system, supervise and regulate financial institutions, foster payment and settlement system safety and efficiency, and promote consumer protection and community development.

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, savings 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 FHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes. LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

MASTER REPURCHASE AGREEMENT: A written contract covering all transactions between the parties to a repurchase or reverse repurchase agreement. It establishes each party's rights in the transactions, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

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

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

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALERS: Banks and securities broker-dealers designated by the Federal Reserve Bank of New York that permit them to trade in U.S. Government securities directly with the Fed in its implementation of monetary policy. They are also expected to make markets for the New York Fed on behalf of its official accountholders as needed, and to bid on a pro-rata basis in all Treasury auctions at reasonably competitive prices.

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—the so-called legal list. 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.

RATE OF RETURN: The actual realized return on an investment or portfolio of investments over a specified period of time.

REPURCHASE AGREEMENT (REPO): A transaction in which an investor purchases securities from a counterparty with a simultaneous agreement to sell them back at a fixed price on a fixed date in the future. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate for this by paying an implied rate of interest for the term of the repo.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): The opposite transaction to a repo. A reverse-repurchase agreement (reverse repo) involves a counterparty borrowing cash from a financial institution in exchange for a temporary sale of securities used as collateral. The borrower agrees to repurchase the securities at a specified date for an agreed upon price, which includes interest. While a repo is a straightforward investment of funds, the reverse repo is a borrowing which can be used to fund a temporary cash shortage, or to create leverage.

SAFEKEEPING: A fee-based service provided by banks to hold and safeguard customer assets and investments.

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

SECURITIES & EXCHANGE COMMISSION: An independent, federal government agency responsible for protecting investors, maintaining fair and orderly functioning of securities markets, and facilitating capital formation. It is also the responsibility of the Commission to interpret and enforce federal securities laws, issue new rules and amend existing rules, oversee the inspection of securities firms, brokers, investment advisers, and ratings agencies, oversee private regulatory organizations in the securities, accounting, and auditing fields, and coordinate U.S. securities regulation with federal, state, and foreign authorities.

SEC RULE 15(C)3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Complex notes typically issued by Government Sponsored Enterprises (FHLB, FNMA, etc.) and corporations, which have imbedded options or other complications (e.g., variable coupons, derivative-based returns) that can significantly affect their performance.

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

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.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

RESPONSIBILITIES

City Treasurer for implementation of this policy.

RELEVANT AUTHORITY

Article XII, Section 1201, of the City of Stockton Charter

California Government Code Section 53607 allows for the delegation of investment activities to the Treasurer of the City for periods of one year. That delegation, subject to review, is renewable on an annual basis and is to be included as part of the adoption of the annual budget to have the authority in place at July 1 of each year.

Chapter 2.20.050 of the City of Stockton Municipal Code (SMC) defines "Treasurer" as the Director of Administrative Services. Chapter 2.20.060 of the SMC provides that management responsibility for the investment program is delegated to the Administrative Services Director. Under the provision of California Government Code Section 53600.3, the Treasurer is a trustee and therefore a fiduciary subject to the prudent investor standard outlined in the section below.

The City may engage the services of an external investment manager to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such an external manager may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

RELATED CITY POLICIES

FAIR POLITICAL PRACTICES COMMISSION

RELATED CITY PROCEDURES

N/A

RELATED FORMS, DOCUMENTS, OR LINKS

FAIR POLITICAL PRACTICES COMMISSION

FREQUENTLY ASKED QUESTIONS

N/A

UPDATE HISTORY

N/A