RESOLUTION NO. 2024-150

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ROCKLIN
DELEGATING AUTHORITY TO MAKE INVESTMENT DECISIONS
TO THE CITY TREASURER AND ADOPTING
LEGISLATIVE POLICY NO. 1 – INVESTMENT POLICY

WHEREAS, the City of Rocklin's Investment Policy and California Government Code Section 53607 authorize the City Council to delegate authority to the City Treasurer to make all investment decisions for a one-year period; and

WHEREAS, pursuant to the Investment Policy, the City's Investment Policy shall be reviewed annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return, and its relevance to current laws and regulations.

NOW THEREFORE, the City Council of the City of Rocklin does resolve as follows:

Section 1. Pursuant to Section 53607 of the California Government Code, the City Council hereby delegates authority to make all investment decisions for the City's investment portfolio to the City Treasurer. Such delegation shall be for the period commencing July 1, 2024 and ending June 30, 2025. This authority shall supersede Resolution No. 2023-067.

Section 2. Pursuant to the Rocklin Legislative Policy No. 1 – Investment Policy, City of Rocklin Statement of Investment Policy attached hereto as Exhibit A, is hereby confirmed through the 2024/25 fiscal year.

PASSED AND ADOPTED this 25th day of June, 2024, by the following vote:

AYES:	Councilmembers: Bass, Broadway, Gayaldo, Halldin, Janda
NOES:	None
ABSENT:	None
ABSTAIN:	None

Greg Janda, Mayor

ATTEST:

Avinta Singh, City Clerk

Exhibit A

CITY OF ROCKLIN
STATEMENT OF INVESTMENT POLICY

INTRODUCTION

This statement is intended to outline the policies for the prudent investment of the City's Funds and to provide guidelines for suitable investments.

The ultimate goal is to enhance the economic status of the City while safeguarding its assets.

The City's Cash Management System is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City's investment portfolio shall be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, provided that all investments meet the criteria established for safety and liquidity.

The City's investment policies and practices are based upon Federal, State, and Local laws and prudent money management. The primary goals of these policies are:

1. To assure compliance with all Federal, State and Local laws governing the investment of monies.

2. To protect the principal monies.

3. To ensure the investment portfolio remains sufficiently liquid to enable the City of Rocklin to meet all operating requirements which might be reasonably anticipated.

4. To attain a market rate of return on investment within the parameters of this Statement of Investment Policy and the Investment Portfolio Guidelines.

I. SCOPE

It is intended that this policy cover all funds and investment activities under the direct authority of the City in accordance with California Government Code Section 53600 et seq., the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and local laws. Funds included are General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Permanent Funds and Trust Funds.

This policy will not cover bond proceeds obtained from bond issues which are not direct obligations of the City, and which are not under the direct authority of the City. The bond proceeds will be invested in accordance with the Bond Indenture Agreement and applicable State and Federal regulations.

II. **OBJECTIVES**

1. Safety of Principal

   Safety of principal is the foremost objective of the City of Rocklin. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the Agency will diversify its investments by investing funds among a variety of securities with independent returns. The City shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

2. Liquidity

   Liquidity is the second most important objective of the City of Rocklin. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. It is important that an investment contain the feature of being easily sold at any time with a minimal risk of loss of some portion of principal or interest. The investment portfolio will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

3. Return on Investment

   The City's Fund shall seek to attain a market-average rate of return throughout economic cycles. The investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs.

III. PRUDENCE

Pursuant to California Government Code, Section 53600.3, all persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the *Prudent Investor Standard*:

> "...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 limited to, the general economic conditions and the anticipated needs of the Agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

City employees and other authorized persons responsible for managing City funds, acting in accordance with written procedures and the Investment Policy and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that deviations from expectations are reported in a timely manner and that appropriate action is taken to control adverse developments.

IV. DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived from California Government Code, Sections 41006 and 53600 *et seq.*

The City Council is responsible for the management of the City's funds, including the administration of this investment policy. Management responsibility for the cash management of the City's funds may be delegated to the City Treasurer.

The City Treasurer will be responsible for all transactions undertaken and will establish a system of procedures and controls to regulate the activities of subordinate officials and employees. Such procedures will include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer.

The City may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of the overall portfolio's return and the cash flow requirements of the City.

V. ETHICS AND CONFLICTS OF INTEREST

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. City employees and the City's Investment Advisory Committee involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the Investment Policy of which could impair their ability to make impartial investment recommendations and/or decisions. The City's Investment Advisory Committee and City employees involved in the investment process shall disclose any material financial interests in financial institutions with which the City may conduct business, and they shall further disclose any reportable personal financial/investment positions that could be related to the performance of the City's portfolio. The Investment Advisory Committee and City employees involved in the investment process shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

All participants in the investment process are required to comply with terms of the Political Reform Act, Fair Political Practices Commission Regulations promulgated thereunder (2 C.C.R. §§ 18110 through 18998), the City's Conflict of Interest Policy, including, without limitation, filing of Form 700, notification and recusal obligations, and Government Code section 1090 prohibitions.

VI. INVESTMENTS

1. AUTHORIZED INVESTMENTS

The City is governed by the California Government Code, Sections 53600 et seq. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. Percentage holding limits and minimum credit requirements listed in this section apply at the time the security is purchased. 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.

Within the context of these limitations, the following investments are authorized, as further limited herein:

A. United States Treasury Bills, Notes, Bonds, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the Fund that can be invested in this category as they are both safe and liquid.
   - The maximum maturity is five (5) years.

B. Municipal Securities including obligations of the City of Rocklin, the State of California and any local agency within the State of California, provided that:
   - The securities are rated in a rating category of "A" or its equivalent or better 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 five (5) years.

C. Municipal Securities (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 its equivalent or better 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 five (5) years.

D. Federal Agencies or United States Government-Sponsored Enterprise 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. There are no limits on the dollar amount or percentage that the City may invest in Federal Agency or Government-Sponsored Enterprises (GSEs), provided that:
   - No more than 30% of the portfolio may be invested in any single Agency/GSE issuer.
   - The maximum maturity does not exceed five (5) years.
   - The maximum percent of agency callable securities in the portfolio will be 20%.

E. Banker's Acceptances, provided that:
   - They are issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term debt obligations which are rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
   - 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.

F. Commercial paper, provided that the securities are issued by an entity that meets all of the following conditions in either paragraph (a) or (b) and other requirements specified below:
   a. Securities issued by corporations:
      (i) A corporation organized and operating in the United States with assets more than $500 million.
      (ii) The securities are rated "A-1" or its equivalent or better by at least one NRSRO.
      (iii) If the issuer has other debt obligations, they must be rated in a rating category of "A" or its equivalent or better by at least one NRSRO.

   b. Securities issued by other entities:
      (i) The issuer is organized within the United States as a special purpose corporation, trust, or limited liability company.
      (ii) The securities must have program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.

(iii) The securities are rated "A-1" or its equivalent or better by at least one NRSRO.

- No more than 10% of the outstanding commercial paper of any single issuer.
- No more than 25% of the Agency's investment assets under management 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.

G. 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 its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
   - No more than 30% of the total portfolio may be invested in NCDs (combined with CDARS).
   - No more than 5% of the portfolio may be invested in any single issuer.
   - The maximum maturity does not exceed five (5) years.

H. 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 (SIFMA).
   - The maximum maturity does not exceed one (1) year.

I. Supranationals, 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 its equivalent or better 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.

J. State of California Local Agency Investment Fund (LAIF), provided that:
   - 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 City Treasurer to adequately judge the risk inherent in LAIF's portfolio.

K. Corporate Medium-term notes (MTNs), provided that:
   - The issuer is a corporation 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.
   - The securities are rated in a rating category of "A" or its equivalent or better 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.

L. 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 and collateralized time deposits.
   - The maximum maturity does not exceed five (5) years.

M. Mutual Funds and Money Market Mutual Funds that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that:
   a. MUTUAL FUNDS that invest in the securities and obligations as authorized under California Government Code, Section 53601 (a) to (k) and (m) to (q) inclusive and that meet either of the following criteria:
      (i) Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
      (ii) 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 10% of the total portfolio may be invested in shares of any one mutual fund.

b. Money Market Mutual Funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:
   (i) Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
   (ii) Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500 million.
   - No more than 20% of the total portfolio may be invested in the shares of any one Money Market Mutual Fund.

c. No more than 20% of the total portfolio may be invested in these securities.

N. Collateralized Bank Deposits. The City's deposits with financial institutions will be collateralized with pledged securities per California Government Code, Section 53651. There are no limits on the dollar amount or percentage that the City may invest in collateralized bank deposits.

O. Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities and Collateralized Mortgage Obligations from issuers not defined in sections A. or D. of the Authorized Investments Section of this Policy, provided that:
   - The securities are rated in a rating category of "AA" or its equivalent or better 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 or Commercial Mortgage security issuer.
   - The maximum legal final maturity does not exceed five (5) years.

P. Placer County Treasurer's Investment Pool. The City may invest in the Placer County Treasurer's Investment Pool established by the Placer County Treasurer for the benefit of local agencies. No more than 25% of the market value of the Fund may be invested in the Placer County Treasurer's Investment Pool.

2. PROHIBITED INVESTMENT VEHICLES AND PRACTICES
   A. State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.
   B. In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
   C. Investment in any security that could result in a zero interest accrual if held to maturity is prohibited. Under a provision sunsetting on January 1, 2026, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted.
   D. Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
   E. Purchasing or selling securities on margin is prohibited.
   F. The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.
   G. The purchase of foreign currency denominated securities is prohibited.
   H. The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is prohibited.

   Agencies that are not Qualified Institutional Buyers (QIB) as defined by the Securities and Exchange Commission are prohibited from purchasing Private Placement Securities. The SEC defines a QIB as having at least $100,000,000 in securities owned and invested.

VII. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

To the extent practicable, the City Treasurer shall endeavor to complete investment transactions using a competitive bid process whenever possible. The City Treasurer will determine which financial institutions are authorized to provide investment services to the City. It shall be the City's policy to purchase securities only from authorized institutions and firms.

The City Treasurer shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions which are approved for investment purposes that are selected through a process of due diligence as determined by the City. Due inquiry shall determine whether such authorized broker/dealers, and the individuals covering the City are reputable and trustworthy, knowledgeable and experienced in Public Agency investing and able to meet all of their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

In accordance with Section 53601.5, institutions eligible to transact investment business with the City include:

- Institutions licensed by the state and proof of FINRA certification as a broker-dealer, as defined in Section 25004 of the Corporations Code.
- Institutions that are members of a federally regulated securities exchange.
- Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
- Nationally or state-chartered banks.
- The Federal Reserve Bank.
- Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the City, except where the City utilizes an external investment adviser in which case the Agency may rely on the adviser for selection.

All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the City Treasurer with audited financials and a statement certifying that the institution has reviewed the California Government Code, Section 53600 *et seq.* and the City's investment policy. The City Treasurer will conduct an annual review of the financial condition and registrations of such qualified bidders.

Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

Selection of broker/dealers used by an external investment adviser retained by the City will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

VIII. COLLATERALIZATION

Certificates of Deposit (CDs). The City shall require any commercial bank or savings and loan association to deposit eligible securities with an agency of a depository approved by the State Banking Department to secure any uninsured portion of a Non-Negotiable Certificate of Deposit. The value of eligible securities as defined pursuant to California Government Code, Section 53651, pledged against a Certificate of Deposit shall be equal to 150% of the face value of the CD if the securities are classified as mortgages and 110% of the face value of the CD for all other classes of security.

Collateralization of Bank Deposits. This is the process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing repayment of deposited funds. The City shall require any bank or financial institution to comply with the collateralization criteria defined in California Government Code, Section 53651.

Repurchase Agreements. The City requires that Repurchase Agreements be collateralized only by securities authorized in accordance with California Government Code:

- The securities which collateralize the repurchase agreement shall be priced at Market Value, including any Accrued Interest plus a margin. The Market Value of the securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities.
- Financial institutions shall mark the value of the collateral to market at least monthly and increase or decrease the collateral to satisfy the ratio requirement described above.
- The City shall receive monthly statements of collateral.

IX. DELIVERY, SAFEKEEPING AND CUSTODY OF SECURITIES

Delivery-versus-Payment (DVP). All investment transactions shall be conducted on a delivery-versus-payment basis.

Safekeeping and Custody. To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all cash and securities in the City's portfolio shall be held in safekeeping in the City's name by a third-party custodian, acting as agent for the City under the terms of a custody agreement executed by the bank and the City. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by the City from the custodian listing all securities held in safekeeping with current market data and other information.

The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) mutual funds and money market mutual funds, since these securities are not deliverable.

X. RISK MANAGEMENT AND DIVERSIFICATION

Mitigating Credit Risk in the Portfolio

Credit risk is the risk that a security or a portfolio will lose some or all its value due to a real or perceived change in the ability of the issuer to repay its debt. The City will mitigate credit risk by adopting the following strategies:

1. The diversification requirements included in the "Authorized Investments" section of this policy are designed to mitigate credit risk in the portfolio.
2. No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.
3. The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or the City's risk preferences.
4. If a security owned by the City is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps will be taken:
   - Any actions taken related to the downgrade by the investment manager will be communicated to the City Treasurer in a timely manner.
   - If a decision is made to retain the security, the credit situation will be monitored and reported to the City Council.

Mitigating Market Risk in the Portfolio

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The City recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The City will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The City further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The City, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The City will maintain a minimum of six months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements.
- The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.

The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the City based on the City's investment objectives, constraints and risk tolerances.

XI. REPORTING

Monthly Reporting

The City Treasurer shall provide to the City Council a monthly investment report detailing transactions in the City's portfolio as required per California Government Code section 53607.

Quarterly Reporting

The City Treasurer shall render a quarterly report to the City Council showing the type of investment, institution, date of maturity, amount of deposit, current market value for all securities with a maturity of more than twelve months, rate of interest, type and amount of funds under the management of contract investment managers, the City's compliance with the statement of investment policy, the ability of the City of meet cash flow needs for the next six months, and such data as may be required by the City Council as required per California Government Code section 53646.

Annual Reports

An annual report will be presented to the City Council. This report will include comparisons of the City's return to the market benchmark return, suggest policies and improvements that might enhance the investment program, and may include an investment plan for the coming year.

XII. INVESTMENT CONTROLS

The City Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

XIII. <u>POLICY ADOPTION</u>

The City's Investment Policy shall be adopted by resolution of the City Council. The Policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of PRINCIPAL, LIQUIDITY, AND RETURN, and its relevance to current law, financial and economic trends, and to meet the needs of the City of Rocklin and any modifications made thereto must be approved by the City Council. The City's Investment Policy shall be submitted annually to the City Council.

GLOSSARY

ACCRUED INTEREST - Interest on a bond that has accumulated since the last interest payment. The buyer pays the seller the bond price plus accrued interest.

AGENCIES - Federal agency securities.

BANKER'S ACCEPTANCE - A time draft drawn on a bank and accepted by that bank as ultimate liability for payment. Used most often to finance import and export transactions. Banker's acceptances are also collateralized by the underlying merchandise being contracted in the import-export transaction. It is a money market instrument when guaranteed by a bank.

BASIS POINT - Smallest measure used in quoting yields on bonds and notes; one one-hundredth of a percentage point (.01 percent or .0001).

BOND - A 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 nothing more than a promissory note which is traded in the financial markets. The investor's position is that of lender.

BOOK VALUE - The value at which the investor holds on their books as their invested amount in a security. This may be more or less' than the current face value of the security depending if the security was purchased at a price more or less than the face value.

BROKER - A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not hold a position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

CAPITALIZATION - A firm's capital structure, composed of total securities issued by the corporation, including bonds, debentures, preferred and common stock, and all surpluses (retained earnings).

CERTIFICATE OF DEPOSIT (CD) (TIME DEPOSIT) - An interest-bearing time deposit issued by banks with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

CHURNING – excessive trading in a customer's account designed solely to increase broker's commissions.

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.

COLLATERALIZED OBLIGATIONS - Notes secured by collateral. The collateral is usually comprised of U.S. Government securities which are held by a third-party-trustee who also insures that adequate collateral is posted at all times.

COLLATERALIZED MORTGAGE OBLIGATION (CMO) - Derivative security created by dividing the cash flows of a pool of mortgages into obligations with different maturities.

COMMERCIAL PAPER - Unsecured, bearer obligations (maturity usually 270 days or less) issued by corporations, either at a discount and redeemed at par, or at par and pay interest.

COMMON STOCK - Units (shares) of ownership in a public corporation. Shareholders have control over corporate affairs through voting rights, and dividends are paid to common stockholders after preferred stock shareholders.

CONFIRMATION - A piece of paper detailing the conditions and terms of a transaction. Delivered to the customer on or before settlement. It serves as a bill for purchases and an advisory notice for sales.

CORPORATE BONDS - A debt instrument issued by a corporation which normally pays interest on specific dates and repays the principal at maturity.

COUPON - (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

CREDIT RISK - The risk that an obligation will not be met in a timely fashion with the result being a temporary or even permanent loss to the lender.

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.

DEBT TO EQUITY RATIO - Solvency ratio of total long-term debt to total stockholder's equity.

DELIVERY VERSUS PAYMENT - There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVE - A broad term referring to any security which derives its value from another underlying asset or index.

DISCOUNT - The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT RATE - Interest rate that the Federal Reserve charges for loans to member banks.

DISCOUNT SECURITIES - Non-interest-bearing money market instruments that are issued at a discount and redeemed at a maturity for full face value; i.e., U.S. Treasury bills.

DIVERSIFICATION - Spreading a portfolio across a range of security types, industries or geographic areas to limit risk.

FACE VALUE - The same as par value. Face value is the principal amount of a bond.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) - A federal agency that insures bank deposits currently $250,000 per depositor.

FEDERAL FARM CREDIT BANK (FFCB) - Government instrumentality which issues notes and bonds to provide funds for its member banks for the purchase of farm land, equipment and commodities.

FEDERAL HOME LOAN BANKS (FHLB) - Government instrumentality consisting of twelve regional banks owned by savings and homestead associations which issue bonds and notes to finance home building and mortgage loans of their member associates.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC OR FREDDIE MAC) - Debt issued by FHLMC, a government instrumentality, to facilitate real estate lending. FHLMC issues short-term debt backed by its own full faith and credit, and it issued long-term debt backed by mortgages with repayment guaranteed by FHLMC.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA OR FANNIE MAE) – A government-sponsored-publicly-owned corporation whose stock trades on the New York Stock Exchange. FNMA issues short-term debt backed by its own full faith and credit. FNMA purchases FHA, VA, and FHDA mortgages through the sale of its corporate debenture notes. These notes are backed by the mortgages with repayment guaranteed by FNMA.

FLOATER - A floating rate security in which the interest note varies with an index such as U.S. Treasury Bills or LIBOR (London Interbank Offered Rate).

GENERAL OBLIGATION BOND (G.O.) - A municipal bond secured by the full faith and credit of the municipality.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR GINNIE MAE) - Securities 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 FHA, VA or FMHM mortgages. The term pass-through is often used to describe Ginnie Maes.

GUARANTEED INVESTMENT CONTRACTS (GICs) - An agreement acknowledging receipt of funds for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid. Uninsured, non-guaranteed obligations of insurance companies, permitted for public investment in a few states. Risk varies according to the credit risk of the issuing company.

HEDGE/HEDGING - Technique designed to counteract the risk of loss from price changes in the market.

HOLDING COMPANIES - A corporation with controlling interest in one or more corporations.

INSTRUMENTALITIES - See U.S. government instrumentality obligations.

INTEREST - The sum charged for borrowing money.

INTEREST-ONLY SECURITY (IO) - Security derived from the interest rate portion of a pool of mortgage securities (separated from the principal portion).

INTEREST RATE RISK - The uncertainty of investment return due to changes in the market rates of interest. For investments that generate a fixed rate of return, the value of that investment is inversely related to the movement of market rates of interest.

INVERSE FLOATER - Structured note or derivative designed to rise in yield as interest rates fall. Also called reverse floater. Extremely volatile security not recommended for public funds.

INVESTMENT COMPANY ACT OF 1940 - Regulates investment companies.

LEVERAGE - Money borrowed to reinvest in order to increase the return on invested capital. A municipality may leverage funds through the issuance of taxable notes, reverse repurchase agreements and purchasing securities with embedded leverage. Leverage may be embedded inside a security or it may be applied to an investment portfolio as a whole.

LIQUIDITY - A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. 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.

LIQUIDITY RISK - The risk that a financial institution or other organization will not have sufficient cash on hand to meet its obligations; or in the case of a specific investment instrument, the risk that it will not be easily convertible to cash.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP) - The aggregate of all funds from a political subdivision that are placed in the custody of the State Treasurer for investment and reinvestment.

LONG TERM - Securities held more than six months or bonds maturing in more than five years.
MARK TO MARKET - Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation.

MARKET MAKER - A broker/dealer maintaining an inventory in a security.

MARKET RATE OF RETURN - Return that is based on some market index that acts as a proxy for the market, such as the "Standard & Poor's 500" stock index, which is used to gauge the returns on individual securities or portfolios. The City uses as a benchmark the average return on two-year U.S. Treasury Notes.

MARKET RISK - The risk of a decline in the price of securities because of a general falling market.

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

MASTER REPURCHASE AGREEMENT - A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes 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.

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

MEDIUM-TERM NOTES - Issuers register with the SEC allowing for notes to be issued at various times, rates and maturities from one to ten years as the issuer's financing needs dictate.

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

MONEY MARKET FUND - An open-end investment company (mutual fund) that invests in money market instruments regulated by the Securities and Exchange Commission. It is a highly liquid investment that pays money market rates of interest.

MONEY MARKET INSTRUMENTS - Highly liquid debt instruments usually with maturities of one year or less. Money market instruments include repurchase agreements, reverse repurchase agreements, negotiable certificates of deposit, banker's acceptances, commercial paper, Treasury bills and other short-term direct obligations of U.S. government agencies and instrumentalities.

MORTGAGE BACKED SECURITY (MBS) - A pool of individual mortgages which is packaged and sold to investors at a specified coupon rate, maturity date, and face value. Individual mortgage loans are purchased from lenders by GNMA, FNMA, & FHLMC, thus converting the lenders loan assets to dollars, in turn making money available again for borrowing. GNMA, FNMA, & FHLMC then package the mortgage loans into pools, securitize them and offers them for sale in the securities market. In doing so, GNMA, FNMA, & FHLMC convert mortgages to dollars, enabling them to purchase additional individual mortgages for pooling. This conduit is used to reallocate funds, from the securities markets into the real estate market.

MUTUAL FUNDS - Investment company that pools funds from investors to buy stocks, bonds, government securities, money market instruments and other assets. Public investments, with the exception of pension funds, usually are restricted to mutual funds known as money market funds.

NATIONAL ASSOCIATION OF SECURITIES DEALERS - A not-for-profit organization of dealers whose aim is protecting over the counter customers through financial solvency and integrity.

NEGOTIABLE CERTIFICATE OF DEPOSIT - Time deposits which may be purchased and sold in the financial markets.

NET ASSET VALUE - Net redemption price (bid price) of an open-end investment company.

NO-LOAD MUTUAL FUNDS - Mutual funds offered directly to the public at net asset value with no sales charge.

NOTE - A written promise to pay a specified amount to a certain entity on demand or on a specified date.

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. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PAR VALUE - The same as face value. Par value is the principal amount of a bond.

PERFECTED INTEREST - The legal right to interest and principal of securities held as collateral by a third-party safekeeping arrangement.

PORTFOLIO - Collection of securities held by an investor.

PREFERRED STOCK - Shareholders are entitled to a specified dividend and priority over assets in liquidation, but not voting rights.

PREMIUM - Bond purchase price which is greater than that of its face value.

PRIMARY DEALER - A group of government securities dealers that 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. Primary dealers include Securities and Exchange commission (SEC), registered securities broker-dealers, banks, and a few unregulated firms.

PRIME BANKER'S ACCEPTANCE - A banker's acceptance issued by a bank that has received the highest short-term ratings from at least two' nationally recognized ratings organizations. It has a relatively short maturity (usually six months or less), and is eligible for discounting within the Federal Reserve system. Eligibility depends on a number of criteria including the purpose; timing and amount of the underlying transaction (See also "banker's acceptance").

PRIME COMMERCIAL PAPER - Commercial paper that has received the highest short-term ratings from at least two national ratings organizations (See also "commercial paper").

PRIME RATE - Interest rate charged by a bank on loans to its best customers.

PRINCIPAL - (1) The face amount on a bond. (2) The basic amount invested.

PRINCIPAL-ONLY SECURITY (PO) - Security derived from principal portion of a pool of mortgage securities (separated from the interest payments).

PROSPECTUS - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC that typically includes information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement").

PRUDENT INVESTOR 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 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 yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

REINVESTMENT RISK - The risk that maturing investments cannot be replaced by investments earning the same interest rate.

REPURCHASE AGREEMENT (RP or REPO) - A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. 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 him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is increasing bank reserves.

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

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

SECURITIES & EXCHANGE COMMISSION (SEC) - Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SECURITY INVESTOR PROTECTION CORPORATION (SIPC) - A non-profit organization of broker/dealers responsible for orderly liquidation of failed firms. Customers are protected to $500,000 per account.

SHORT TERM - Securities held six months or less. Bonds with maturities of one year or less.

SMALL BUSINESS ADMINISTRATION LOANS (SBA) - Loans made by banks to small business, which are then sold to the SBA who offers them for sale in the financial markets. Loans are purchased by the SBA to facilitate lending for small business enterprises.

STRIPS – Separate trading of registered interest and principal securities

STRUCTURED NOTE - Complex customized security (also known as structured derivative) on which the returns are pegged to underlying assets or financial indices.

SUPRANATIONALS – International development institutions that provide financing, advisory services, and/or other financial services to their member countries to achieve overall goal of improving living standards through sustainable economic growth.

TAX AND REVENUE ANTICIPATION NOTES (TRANs) - Notes issued in anticipation of receiving tax proceeds or other revenues at a future date.

TOTAL RISK-BASED CAPITAL RATIO, TIER 1 RISK-BASED CAPITAL RATIO & TIER 1 LEVERAGE RATIO - In response to the FDIC Improvement Act of 1991 (FDICIA), the FDIC and the Federal Reserve Board both proposed a five-tier scheme of capital requirements and corresponding supervisory actions to implement the prompt corrective actions provisions of the FDICIA. These ratios serve as benchmarks for the five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

> Well capitalized institution would be defined as one that has a total risk-based capital ratio of ten percent, a Tier 1 risk-based capital ratio of six percent and a leverage ratio of five percent. A well-capitalized institution cannot be subject to any written capital order or directive.
>
> An adequately capitalized institution would be one with a total risk-based capital ratio of eight percent, a Tier 1 risk-based capital ratio of four percent, or a Tier 1 leverage ratio of four percent.
>
> An undercapitalized institution would be one that does not meet the capital levels needed to be adequately capitalized. A significantly undercapitalized institution, however, would be one that has a total risk-based capital ratio of under six percent, a Tier 1 risk-based capital of under three percent, or a Tier 1 leverage ratio of under three percent.
>
> Finally, the agencies proposed to classify any institution as critically undercapitalized if it has a Tier 1 leverage ratio of two percent or less.

TREASURY BILLS - A short-term U.S. government security, also known as a T-bill, issued in minimum denominations of $10,000 with maturities of 13 weeks, 26 weeks and 52 weeks. T-bills bear no specific interest rate. They are sold at a discount to face value; their yield, therefore, varies with the difference between the purchase price and the value at maturity.

TREASURY BOND - Long-term, coupon-bearing U.S. government security, usually issued in denominations of $1,000 or more and having maturities of 10 or more years. Interest is paid every six months at a rate of one-half the annual coupon; principal is paid at maturity.

TREASURY NOTES - Medium-term, coupon-bearing U.S. government security, usually issued in denominations of $1,000 or more and having maturities of one to 10 years. Interest is paid every six months at a rate of one-half the annual coupon; principal is paid at maturity.

TRUSTEE OR TRUST COMPANY OR TRUST DEPARTMENT OF A BANK – A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

UNDERWRITER - A dealer which purchases a new issue of municipal securities for resale.

UNIFORM NET CAPITAL RULE - SEC 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.

U.S. GOVERNMENT AGENCY OBLIGATIONS (AGENCIES) - Securities issued by federal agencies other than the U.S. Treasury including: the Government National Mortgage Association (GNMA or Ginnie Mae), Small Business Administration (SBA), General Services Administration (GSA) and Federal Housing Administration (FHA). Some investors include debt instruments issued by government-sponsored corporations and related instrumentalities in the term "agencies." However, technical differences make this usage incorrect. In most cases, the U.S. government explicitly guarantees principal and interest of agency debt but not debt of instrumentalities and government sponsored corporations.

U.S. GOVERNMENT INSTRUMENTALITY OBLIGATIONS (INSTRUMENTALITIES) - Securities issued by government-sponsored corporations including: the Student Loan Marketing Association (Sallie Mae), World Bank, Federal National Mortgage Association (Fannie Mae), Federal Farm Credit Banks (FFCB), Federal Home Loan Mortgage Association (Freddie Mae) and Federal Home Loan Banks (FHLB). Principal and interest are guaranteed only by the corporations, not the U.S. government.

WEIGHTED AVERAGE MATURITY (WAM) - The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

YIELD - The rate of annual income returned 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.

YIELD CURVE - A graphic representation that shows the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

ZERO-COUPON SECURITY (ZEROS) - A security on which all interest is paid in a lump sum at maturity, thus eliminating the reinvestment risk of interest paid out over the life of the security. Prices are extremely interest rate sensitive and volatility increases with maturity (See also "zero-coupon treasury bonds").

ZERO-COUPON TREASURY BOND - Security formed by stripping coupons from a treasury bond so that an investor can buy a single coupon or the principal payment at present value. Market risk is high, particularly for longer maturities. Variations include STRIPS (Separate Trading: of Registered Interest and Principal), CATS (Certificate of Accrual on Treasury Securities), TIGRS (Treasury Income Growth Receipts) and others.