



TULARE COUNTY

Annual Investment Policy of the Pooled Investment Fund

FISCAL YEAR 2023/2024

Cass Cook, CGIP
Auditor-Controller / Treasurer-Tax Collector

<https://tularecounty.ca.gov/treasurertaxcollector/treasurer/documents/investment-policy/>

PREFACE

The County is a political subdivision of the State of California created in 1852. The County Covers an area of approximately 4,839 square miles located in the heart of the Central Valley. Tulare County employs more than 5,100 employees in 20 Departments. It has a total budget of \$1.82 billion for fiscal year 2023, an increase of \$206.6 million. The County is known for its strong ending-fund balance, overall financial strength, and an investment-quality credit rating of “Aa2” from Moody’s Investor Service and an “AA-” from Standard and Poor’s.

The Treasurer’s Investment Pool is responsible for assets of \$2.6 billion as of June 30, 2022. Participants of the Investment Pool include the County, local school districts, the local community college, and other special purpose authorities. Tulare County’s portion of the Investment Pool’s assets as of June 30, 2022, is \$1.0 billion (39.5%), while the external participants, non-County portion, represents \$1.6 billion (60.5%) of the investment portfolio.

This policy has been researched, prepared, and written under the direction of the Auditor-Controller/Treasurer-Tax Collector of the County of Tulare. Each issue addressed in this policy is considered to be of timely and significant importance to the administration of the investment portfolio. While some portions of this policy are a restatement of State law, it is viewed that these restatements are integral to the purpose and flow of this policy.

Approval Schedule

- County Treasury Oversight Committee
Approved – May 4, 2023
- Tulare County Board of Supervisors
Approved – June 27, 2023

Table of Contents

1.0 POLICY PURPOSE AND INTRODUCTION	1
1.1 MAINTENANCE OF PUBLIC TRUST.....	1
1.2 PUBLIC INQUIRY	1
2.0 SCOPE	1
3.0 DELEGATION OF AUTHORITY.....	1
3.1 INVESTMENT RESPONSIBILITIES.....	2
3.2 STAFF AUTHORIZED TO MAKE INVESTMENTS.....	2
3.3 INVESTMENT ADVISORS.....	2
4.0 STANDARD OF PRUDENCE.....	2
5.0 LEGAL COMPLIANCE	3
6.0 PRIMARY PORTFOLIO OBJECTIVES	3
7.0 INTERNAL CONTROLS	3
8.0 TREASURY OVERSIGHT COMMITTEE	4
9.0 CONFLICT OF INTEREST.....	4
9.1 TREASURY OVERSIGHT COMMITTEE	4
10.0 TERMS FOR FUNDS INVESTED WITH THE POOL.....	5
10.1 FUNDS OF AGENCIES REQUIRED TO INVEST WITHIN THE POOL	5
10.2 MONEY VOLUNTARILY INVESTED WITH THE POOL	6
10.3 WITHDRAWAL OF FUNDS	7
10.4 INVESTMENT EARNINGS AND QUARTERLY ALLOCATION	8
10.5 ADMINISTRATIVE COSTS.....	8
11.0 AUTHORIZED INVESTMENT INSTRUMENTS	8
12.0 INELIGIBLE SECURITIES	13
13.0 INVESTMENT TRANSACTION PARAMETERS.....	13
13.1 COMPETITIVE PRICING	13
13.2 PURCHASE OF SECURITIES FOR FORWARD SETTLEMENT	13
13.3 DIVERSIFICATION PARAMETERS	13
13.4 LIQUIDITY AND MATURITY PARAMETERS.....	14
13.5 EARLY SALE OF SECURITIES	14
13.6 ISSUER DOWNGRADES	14
13.7 CALCULATION PARAMETERS	14

14.0 BROKER/DEALER AND DEPOSITORY INSTITUTIONS

14.1 APPROVED LIST OF BROKER/DEALER INSTITUTIONS15

14.2 APPROVED LIST OF DEPOSITORY INSTITUTIONS15

15.0 CUSTODY AND DELIVERY.....16

16.0 REVIEW AND ANALYSIS OF PROSPECTIVE INVESTMENTS16

17.0 PERFORMANCE MEASUREMENT16

18.0 REPORTING.....17

19.0 ONGOING TRAINING AND EDUCATION17

20.0 INVESTMENT POLICY ADOPTION.....17

SCHEDULE 1 – POOL INVESTMENT PARAMETERS18

SCHEDULE 2 GLOSSARY OF INVESTMENT TERMS.....19

1.0 POLICY PURPOSE AND INTRODUCTION

Tulare County (the County) has a fiduciary responsibility to maximize the productive use of its liquid assets entrusted to its care. This policy, which is brought to the Board of Supervisors to be reviewed and approved annually at a public meeting, is intended to provide guidelines for the operation of the investment program and the prudent investment of funds of the Tulare County Treasury. It is the policy of the County to invest public funds in a manner that will provide high investment return with maximum security while meeting the daily cash flow demands of the County and conforming to all state and local statutes governing the investment of public funds.

1.1 MAINTENANCE OF PUBLIC TRUST

The County Treasurer has been entrusted with the safekeeping of public monies received from public sources. The Treasurer and Treasurer staff are responsible for managing the Pooled Investment Fund and shall exercise a high degree of professionalism. All investments and activities are made with the understanding that the Treasurer holds a public trust with the citizens of Tulare County, which shall not be compromised, and are subject to public review and scrutiny.

1.2 PUBLIC INQUIRY

The County Treasurer's portfolio and related transactions are a matter of public record. All districts whose funds are deposited with the Treasurer or any member of the public may obtain a copy of the Annual Comprehensive Financial Report (ACFR), the current Investment Policy, and monthly and quarterly reports, including a complete listing of our holdings by visiting our website at <http://www.tularecounty.ca.gov/treasurertaxcollector/> under the Treasurer drop-down menu.

2.0 SCOPE

This policy shall apply to all financial assets held within the County Treasury Pool and made on behalf of the County and member agencies of the pool. The policy governs the deposit, custody, and investment of all funds under the control of the County Treasurer and all related transactions and investment activities. This policy does not apply to bond funds or other assets belonging to the County or other affiliated public agency assets that reside outside of the County Treasury Pool.

3.0 DELEGATION OF AUTHORITY

The County Treasurer's authority and responsibility to manage the Pooled Investment Fund is delegated for a one-year period by the County Board of Supervisors until the delegation is revoked or expires in accordance with the California Government Code §53607, §27000.1, §53630 et seq., and Tulare County Ordinance 1-03-2061.

3.1 INVESTMENT RESPONSIBILITIES

The Treasurer shall have the responsibility to execute transactions on a day-to-day basis including the authority to open accounts with financial institutions and broker/dealers, to arrange for the custody of securities, and to execute such documents as may be necessary to carry out these responsibilities in compliance with this policy.

3.2 STAFF AUTHORIZED TO MAKE INVESTMENTS

Only the Auditor-Controller/Treasurer-Tax Collector, Assistant Treasurer-Tax Collector, Chief Investment Officer, Treasury Accountant, and authorized contracted advisor(s) may make investments and order the receipt and delivery of investment securities to the custodial bank(s). The authority granted to contracted advisor/managers(s) shall be defined in their contract(s).

3.3 INVESTMENT ADVISORS

The County may enter into an agreement with an investment advisor for investment management/advisory services, and the investment advisor will operate under the direction of the County Treasurer. The investment advisor shall be registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. The investment advisor shall submit forms ADV Part 1 and ADV Part 2A on an annual basis.

4.0 STANDARD OF PRUDENCE

California Government Codes §27000.3 and §53600.3 declares each Treasurer or governing body authorized to make investment decisions on behalf of local agencies, to be a fiduciary trustee subject to the prudent investor standard. This standard requires that:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the county treasurer or the board of supervisors, as applicable, shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, 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 county and other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law.”

Prudence shall be applied in the context of managing the overall portfolio. Investment officers and their advisors acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for individual security's credit risk or market price changes, provided that deviations from expectation are reported to the Treasurer in a timely fashion and appropriate action is taken to control adverse developments.

5.0 LEGAL COMPLIANCE

All investments shall be made in accordance with the County Treasurer's Investment Policy, California Government Code §27000 et. seq., and §53600 et. seq., and any forthcoming amendments or additions to the California Government Code in relation to the investment of local agency idle funds.

6.0 PRIMARY PORTFOLIO OBJECTIVES

It is the policy of the Treasurer to invest public funds in a manner that will earn a market rate of interest without assuming the undue risk of principal. The portfolio should be managed in a manner that is responsive to public trust and consistent with State law. Accordingly, the County Investment Pool will be guided by the following principles, in order of importance:

1. **Safety** – Safety of principal is the foremost objective of the County's investment program. Investments by the County Treasurer shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall investment pool. This objective shall be achieved through investment in high-quality securities and diversification of security types, issuers, and maturities to minimize credit risk and loss of principal.
2. **Liquidity** – The investment portfolio shall remain sufficiently liquid to enable the Treasury Pool to meet the operating requirements of its participants which might be reasonably anticipated. This objective shall be achieved by matching investment maturities with forecasted cash outflows and maintaining an additional liquidity buffer for unexpected liabilities.
3. **Yield** – The investment portfolio shall be designed to earn a market rate of investment income in relation to prevailing budgetary and economic cycles while taking into account the County's investment risk constraints and cash flow characteristics of the portfolio.

7.0 INTERNAL CONTROLS

The County Treasurer has established a system of internal controls to provide reasonable assurance that the investment objectives are met and to ensure that assets are protected from fraud, theft, employee error, and misrepresentation by third parties. The concept of reasonable assurance recognizes that the cost of control shall not exceed the benefits likely to be derived and that the valuation of costs and benefits require estimates and judgments by management. These procedures shall consider separation of duties, safekeeping, collateralization, reconciliation, wire transfers and other banking related activities. Internal controls shall include but not be limited to:

- Investment transactions in excess of overnight maturity conducted by Treasury staff shall be documented and subsequently reviewed by the Treasurer.
- All investments shall be entered into the Treasurer's accounting system.
- Reconciliation to custody statement and Auditor-Controller pooled cash balances.

8.0 TREASURY OVERSIGHT COMMITTEE

Pursuant California Government Code Sections 27130 et seq. and Tulare County Ordinance 1-05-1070, the Board of Supervisors has established a Treasury Oversight Committee (TOC) to promote the public interest by involving depositors in the management of their funds and by enhancing the security and investment return on their funds. The TOC shall meet at least twice per fiscal year to review operations, performance, and compliance with this policy. All meetings of the TOC are to be open and subject to the Ralph M. Brown Act.

The Treasury Oversight Committee shall consist of the following:

- a) The County Auditor-Controller/Treasurer-Tax Collector
- b) A representative appointed by the Board of Supervisors or his/her designee
- c) The Superintendent of Schools or his designee
- d) A School District designee
- e) A Special District designee
- f) Two members of the public with expertise or academic background in public finance.

The TOC shall annually review and monitor the Investment Policy and any subsequent changes thereto prior to submission to the Board of Supervisors for review and adoption. In addition, the Treasury Oversight Committee shall conduct an annual audit in accordance with California Government Code §27134 to ensure the portfolios compliance with the law and this Investment Policy. Nothing in this policy shall be construed to allow the Treasury Oversight Committee to direct individual investment decisions, select individual investment advisors, broker-dealers, or impinge on the day-to-day operations of the County Treasury.

9.0 CONFLICT OF INTEREST

Officers and staff members involved in the investment process shall not engage in any profession, trade, business or occupation which is incompatible or involves a conflict of interest with their duties; or which may compromise the security and integrity of the County's investment program or impairs their ability to make impartial and prudent investment decisions. The Auditor-Controller-Treasurer-Tax Collector, Assistant Treasurer-Tax Collector, Chief Investment Officer, and Treasury Accountant are required to file annually the *Statement of Economic Interest* as mandated by the Fair Political Practices Commission (FPPC) and/or by County ordinance.

9.1 TREASURY OVERSITE COMMITTEE

1. Each committee member will be subject to filing the appropriate Conflict of Interest financial disclosure form with the Clerk of the Board of Supervisors in a timely manner. Failure to do so may invalidate committee membership. Further, if any committee member is found in breach of these disclosures, they must resign from this committee.

2. A committee member may not be employed by an entity that has:
 - a. Contributed to the campaign of a candidate for the office of local treasurer, or
 - b. Contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the County treasury, in the previous three years or during the period that the employee is a member of the committee. (Government Code Section 27132.1)
3. A committee member may not directly or indirectly raise money for a candidate for local treasurer or member of the governing board of any local agency that had deposited funds in the County Treasury while a member of the committee. (Government Code Section 27132.2)
4. A member of the committee may not secure employment with , or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or with financial services firms with whom the treasurer is doing business during the period that the person is a member of the committee for one year after leaving the committee. (Government Code Section 27132.3)

10.0 TERMS FOR FUNDS INVESTED WITH THE POOL

California Government Code §27133(h) and §27136 require the County Treasurer to define the limits and conditions under which local agencies having their money in the Investment Pool may deposit and withdraw their funds. The Government Codes confer upon the Treasurer the final authority on how funds for which the Treasurer is held responsible for overseeing are to be invested. The Treasurer must take into account the current financial condition of the sum total of the Pools' agencies, the conditions of the marketplace, the cash flow projections, and the potential for changes in the Pool's cash needs. The Treasurer must protect the earnings of each individual local agency in the Pool and see that no decision will reward a particular agency or group of agencies within the Pool at the expense of another or others within the Pool. If the Treasurer determines that a request for a withdrawal of funds for a specific or outside investment is not, in the Treasurer's opinion, in the best interest of a particular agency or is overly detrimental to the Pool as a whole, the Treasurer must legally deny the request, or find a means of neutralizing the harm to all those affected.

10.1 FUNDS OF AGENCIES REQUIRED TO INVEST WITHIN THE POOL

Funds will be accepted at all times, in the manner prescribed, from those agencies where the County Treasurer is also the Treasurer for the local agency or from any agencies that by statute must place their money in the County Investment Pool. Funds will earn interest based on the average daily balance apportioned on a quarterly basis.

The Treasury Pool's cash management plan provides for adequate liquidity to cover the day-to-day operations of pool participants. The County Treasurer will honor all requests to withdraw funds for normal operations that are approved by the County Auditor at a one-dollar net asset value. However, withdrawals during periods of market stress that would adversely affect depositors in the Pool will be at the discretion of the Treasurer.

Should a legislative body of a local agency determine that certain funds will not be required by the local agency for a period of at least one year, the local agency may petition the County Treasurer to invest that portion of the local agency's excess funds in a specific investment under the control of the County Treasurer. Such a petition should specifically state the nature of the funds the legislative body wishes to invest and the reasons why the legislative body believes a specific investment is a preferable and viable alternative to the general Pools participation. Should the Treasurer determine that the request for a specific investment is valid and not overly counter-productive as to the Pool as a whole, the Treasurer will consult with the local agency's legislative body or its appointed representative, to suggest and determine exactly what investment(s) should be purchased to fulfill the needs of the local agency. The Treasurer will then purchase the specific investment(s) upon receipt of a written resolution issued by the legislative body of the local agency requesting the specific investment. The resolution must acknowledge that the local agency's legislative body takes full responsibility for the decision to purchase the specific investment(s) and that should conditions change requiring a sale prior to maturity of the specific investment(s), any loss that might be suffered as a result, will be solely that of the local agency, and that this loss shall not be shared by the Pool as a whole, nor by the County.

It is not permissible for local agency legislative bodies, required to have their funds within the Pool, to withdraw funds from the Pool in order to invest outside the County Pool in any manner, at any time, without specific permission of the Treasurer. Any such investments shall be terminated and all funds returned to the Pool or the securities so purchased must be transferred to the custody of the County Treasurer immediately. Upon receipt of any such securities by the Treasurer, the Treasurer shall at the Treasurer's option, place the investment in the Pool, terminate the investment at the current market value and credit the local agency with the proceeds, or place the security in the name of the local agency as a specific investment.

10.2 MONEY VOLUNTARILY INVESTED WITH THE POOL

Pursuant to Government Code §53684, the County Treasurer shall limit the amounts and set conditions under which money from local agencies, not required to have their funds in the investment Pool, may deposit and withdraw voluntarily invested funds. Funds from local agencies within the County, voluntarily wishing to participate in the Pool, will not be accepted under normal conditions unless the Treasurer is assured that these funds are in lieu of longer-term investments.

Voluntary entrance into the Treasury Pool must be approved by the Treasurer and would require a minimum carrying balance of \$1 million and remain in the pool for at least two years. Deposits above the \$1 million floor amount will be limited to two withdrawals per month and require notification requirements as noted in Section 9.3 of this policy.

Under normal conditions, voluntary money withdrawn from the Pool will be disbursed on a dollar for dollar basis, plus appropriate interest, but under adverse market conditions, when the Treasurer deems the withdrawal of voluntary funds would cause undue losses or significantly lower earnings for those local agencies remaining within the Pool, the Treasurer may require one or more of the following remedies:

- Restrict the percentage of funds that may be withdrawn in any given month;
- Require the local agency withdrawing their funds to accept their funds based on the current market value of the overall Pool.

These terms will be agreed to and contracts signed prior to any voluntary money being accepted into the County Investment Pool.

10.3 WITHDRAWAL OF FUNDS

Under normal conditions, to accommodate large withdrawals that exceed those normally associated with operations, the following written notification requirements must be followed to allow for adjustments to the liquidity position of the pool.

- ◆ Withdrawals of up to \$ 5,000,000..... 48 hours
- ◆ Withdrawals of up to \$10,000,000..... 72 hours
- ◆ Withdrawals of up to \$10,000,001 and above 5 days

Non-voluntary pool participants seeking to withdraw funds for the purpose of investing or depositing outside the Treasury Pool shall first submit a request for withdrawal to the Treasurer for approval prior to withdrawing funds. The request should be submitted and processed as follows:

1. In writing from the governing authority of the funds being withdrawn. The request should state the amount, date of transfer, where investment and/or deposit is/are to be made, and the reason for the request.
2. The request must be received by the County Treasurer no less than (30) thirty days prior to the requested date of withdrawal.
3. Prior to approving a withdrawal, the County Treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the County Treasury Pool, in accordance with Government Code Section 27136(b).

10.4 INVESTMENT EARNINGS and QUARTERLY ALLOCATION

All monies deposited in the pool by participants represent an individual interest in all assets and investments in the pool based on the amount deposited. Pursuant to Government Code §27013 and §53684(b), the County Treasurer calculates and records all interest earned, received, and accrued for the Investment Pool on a daily basis. Net unrealized gains or losses as a result of market fluctuations are not reflected in the earnings allocation to participants.

The apportionment of investment earnings to the various participants in the Investment Pool is performed at the end of each calendar quarter. The apportioned amount is computed as follows:

$$\text{Participating Share of Pool Income} = \frac{\text{Fund's Avg. Daily Equity} \times \text{Pool Total Income}}{\text{Total Pool Average Daily Equity}}$$

10.5 ADMINSTRATIVE COSTS

Prior to the quarterly apportionment, California Government Code 27013 authorizes the Treasurer’s Office to deduct from investment earnings the actual operational costs related to investments, auditing, depositing, and distribution of earnings. All income is distributed quarterly to pool participants after deducting these costs.

11.0 AUTHORIZED INVESTMENT INSTRUMENTS

Investments shall be restricted to those authorized in the California Government Code and as further restricted by this policy. The following defines in detail the parameters of each approved investment type. Any instrument not expressly permitted is prohibited. Specific limitations are provided on the maximum allowable percentage per investment category and further limitations by issuer within each investment category. Where there is a percentage limitation for a particular investment category, that percentage is only applicable at the time of purchase. If at the end of any quarter, any percentage in any restricted security is higher than the maximum allowed by category at the time of purchase, the Treasurer shall take action within 90 days to adjust the portfolio holdings so that the percentages are brought within the percentage limits.

- A. Bonds issued by the County of Tulare, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the County of Tulare or by a department, board, agency, or authority of the County of Tulare.
- B. United States Treasury bills, notes, bonds or certificates of indebtedness or those for which faith and credit of the United States are pledged for principal and interest.
- C. Registered treasury notes or bonds of any of the 49 United States in addition to the State of 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 United States, in addition to the State of California. No more than 30% of the total portfolio may be invested in a combination of securities authorized by this paragraph and paragraph D below.

- D. Bonds, notes, or warrants of the State of California and any local agency within California, 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. No more than 30% of the total portfolio may be invested in a combination of securities authorized by this paragraph and paragraph C above.
- E. Federal agency or United States government - sponsored enterprise obligation, 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, per California Government Code §53601. No more than 75% of the total portfolio may be invested in Agency Securities.
- F. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as Bankers Acceptances, the short-term paper of which is rated in the highest category by a nationally recognized rating service. Purchases of Bankers Acceptances may not exceed 180 days maturity or 40 percent of the total portfolio which may be invested pursuant to this section.
- G. Commercial Paper. 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. The entity that issues the commercial paper shall meet all the following conditions in either paragraph (1) or paragraph (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 a nationally recognized statistical-rating organization.
 - (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, over collateralization, letters of credit, or surety bond. (C) Has commercial paper that is rated “A-1” or higher, or the equivalent, by a nationally recognized statistical-rating organization.

Purchases of eligible commercial paper shall not exceed 270 days maturity. Purchases of commercial paper may not exceed 40 percent of the County’s total portfolio. (California Government Code §53635)

- H. Negotiable Certificates of Deposit (California Government Code §53601(i)) issued by a nationally or state-chartered bank or a savings association or federal association or a state or federal credit union or a federally-licensed or state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated in a rating category of “A” or its equivalent or better by a nationally recognized rating service. Purchases of negotiable certificates of deposit may not exceed 30 percent of the total portfolio which may be invested pursuant to this section. For the purpose of this section, negotiable certificates of deposit do not come within Article 2 of Chapter 4 of Part 1 of Division 2 of Title 5 of the Government Code, except that the amount invested shall be subject to the limitations of §53638.

- I. Repurchase and Reverse Purchase Agreements are restricted to primary dealers of the Federal Reserve Bank of New York. All counterparties must sign a Master Repurchase Agreement and, for tri-party repurchase agreements, a Tri-Party Repurchase Agreement before engaging in any repurchase agreement transactions.
- (1) Investment in Repurchase Agreements or Reverse Repurchase Agreements of any securities authorized by California Government Code §53601 & §53635.
 - (2) Investment in Repurchase Agreements may be made on any investment authorized in California Government Code §53601 and §53635 when the term of the agreement does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily fluctuation, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day. No more than 50% of the total portfolio may be invested in overnight repurchase agreements.
 - (3) Reverse Repurchase Agreements may be utilized only when the following conditions are met: The security to be sold on Reverse Repurchase Agreement has been owned and fully paid for by the County of Tulare for a minimum of 30 days prior to sale, and the total of all Reverse Repurchase Agreements on investments owned by the local agency does not exceed 20 percent of the base portfolio, and the agreement does not exceed a term of 92 days unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of the security using a Reverse Repurchase Agreement and the final maturity date of the same security.
 - (4) A Reverse Repurchase Agreement may not be entered into as a means of financing or paying for the security sold on a Reverse Repurchase Agreement but may only be entered into to supplement the yield on securities owned and previously paid for or to provide funds for the immediate payment of an obligation of Tulare County.
 - (5) Investments in Reverse Repurchase Agreements or similar investments in which the local agency sells securities prior to purchase may only be made upon prior approval of the Board of Supervisors of the County of Tulare and are limited to no more than 20% of the total portfolio.
 - (6) (a) "Repurchase Agreement" means a purchase of securities by the agency pursuant to an agreement by which the counter-party seller will repurchase the securities on or before a specified date and for a specified amount and the counter-party will deliver the underlying securities to the agency's pool by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counter-party bank's customer book-entry account may be used for book-entry delivery.
(b) "Securities," for the purpose of repurchase, means securities of the same issuer, description, issue date, and maturity.

(c) "Reverse Repurchase Agreement" means a sale of securities by the County Treasury pursuant to an agreement by which the agency will repurchase the securities on or before a specified date and includes other comparable agreements.

(d) The base value of the County Treasury Pools portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pools by all pool participants, excluding any amounts obtained through selling securities by way of Reverse Repurchase Agreements or other similar borrowing methods.

(e) The spread is the difference between the cost of funds obtained using the Reverse Repurchase agreement and the earnings obtained on the reinvestment of the funds.

- J. Medium-Term Notes with a maximum of five years' maturity 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. Notes eligible for investment shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Purchases of Medium-Term Notes may not exceed 30 percent of the agency's total portfolio which may be invested.
- K. 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. To be eligible for investment these companies shall either:
- (1) Attain the highest ranking or highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.
 - (2) Have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with no less than five years of experience managing money market funds with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price of shares of beneficial interest purchased shall not include any commission these companies may charge and shall not exceed 15 percent of the agency's total portfolio which may be invested pursuant to §53635 of the California Government Code.
- L. FDIC insured or collateralized savings accounts, market rate accounts, certificates of deposits and other bank deposits in a state or national bank, savings association or federal association, or a state or a federal credit union located in California. Any financial institution accepting County funds for deposit must comply with the requirements of Government Code §53630 et seq., including collateralization of deposits. The County may waive the collateralization requirements for any portion of the deposit covered by Federal Deposit Insurance. As provided by Government Code §53649, the County shall have a signed contract with each financial institution that has County funds on deposit.

- M. Deposits at a commercial bank, savings bank, savings and loan association, or credit union placed through a deposit placement service that comply with the requirements under Government Code §53601.8 and §53635.8. The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by Federal Deposit Insurance.
- N. Local Agency Investment Fund (LAIF). The maximum balance that can be held in the fund is the maximum amount permitted by State Treasury policy.
- O. Managed Investment Pools pursuant to California Government Code §53601(p) for which shares of beneficial interest issued by a joint powers authority organized pursuant to California Government Code §6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
- (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
 - (2) The adviser has no less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.
 - (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).
- P. A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall:
- (1) Have a maximum remaining maturity of five years or less.
 - (2) Be rated in a rating category of "AA" or its equivalent or better by a nationally recognized statistical-rating organization.
 - (3) Purchase of securities authorized by this subdivision may not exceed an accumulative 20 percent of the total portfolio.
- Q. United States 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, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service and shall not exceed 30 percent of the total portfolio that may be invested pursuant to this section.

12.0 INELIGIBLE SECURITIES

1. Securities Lending
2. Inverse floaters, range notes, or interest-only strips derived from a pool of mortgages.
3. A local agency shall not invest any funds in any security that could result in zero interest if held to maturity.
4. Financial futures and options.
5. Mutual bond funds that do not maintain a constant Net Asset Value (NAV).

13.0 INVESTMENT TRANSACTION PARAMETERS

13.1 COMPETITIVE PRICING

Investment transactions are to be made at current market prices. When possible, competitive prices should be obtained through multiple bids or offers and documented in the trade documentation. When possible bids and offers for any investment security should be taken from at least three broker/dealers on the approved list. When identical securities are not available from multiple sources, or investments are purchased directly from the issuer (i.e. commercial paper and certificates of deposit), market prices may be documented by reference to offerings of similar securities that are of comparable rating and maturity by other issuers.

13.2 PURCHASE OF SECURITIES FOR FORWARD SETTLEMENT

Purchases of securities for forward settlement are only authorized as long as the intent of the purchase is to hold them in the portfolio and not for speculative trading, sufficient cash is available to consummate their acceptance into the Treasurer's portfolio on the settlement date, there is the ability at purchase to hold them in the portfolio to maturity without violating any diversification/maturity limits of this policy and the forward settlement date does not exceed 30 days.

13.3 DIVERSIFICATION PARAMETERS

County Treasury staff shall diversify its investments by security type, issuer, and maturity as specified in the previous sections. The purpose of this diversification is to reduce portfolio risk by avoiding overconcentration in any particular maturity sector, asset class, or specific issuer. With the exception of insured and/or collateralized bank deposits, overnight repurchase agreements, U.S. Government securities, including its agencies and instrumentalities, and authorized pools, no more than 5% of the County's aggregate investment portfolio may be invested in securities of a single issuer, regardless of sector. As Federal Agency security holdings make up a large portion of the portfolio, diversification among the Agency issuers should be considered to the extent practical when making investments.

13.4 LIQUIDITY AND MATURITY PARAMETERS

The Treasury Pool shall ensure that there is sufficient liquidity in its “cash” investments and maturities so that cash is available to meet both planned and unforeseen requirements of pool participants and maximize the return on funds commensurate with a conservative cash management strategy.

No investment shall be made in any security with a maturity greater than five years unless approved by the Board of Supervisors no less than three months prior to investment. Some investments are restricted to terms less than five years. These maturity limitations are described in this policy. The term “maturity” in this Policy is defined as an instrument’s stated legal final redemption date. The dollar-weighted average maturity of the portfolio shall not exceed 3.5 years.

13.5 EARLY SALE OF SECURITIES

Securities should be purchased with the intent of holding them until maturity with the following exceptions:

1. Deterioration in the creditworthiness of an issuer warrants a sale of the securities prior to maturity to minimize loss of principal. (Refer to Section X.X of this policy.)
2. Liquidity needs of the portfolio require that securities be sold prior to maturity.
3. A security rebalance or swap would improve the quality, yield, or target duration in the portfolio.

In measuring a profit or loss, the sale proceeds shall be compared to the original cost as per the Treasurer’s books of the security plus accrued interest earned and/or any accretion or amortization of principal on the security from the date of purchase or the last coupon date to the date of sale. The sale of a security at a loss can only be made with the approval of the County Treasurer or his designee.

13.6 ISSUER DOWNGRADES

In the event an issuer is downgraded below the ratings set forth in this Investment Policy, an analysis will be performed detailing the exposure to the Investment pool and a conclusion will be made regarding holding applicable securities to maturity, reducing exposure to the issuer, or selling all holding associated with the issuer.

13.7 CALCULATION PARAMETERS

Calculation of percentage allocations shall be done at the time of purchase and formulated on book value. Weighted average maturity is calculated using a security’s stated final maturity and using the settlement date.

14.0 BROKER/DEALER AND DEPOSITORY INSTITUTIONS

14.1 APPROVED LIST OF BROKER/DEALER INSTITUTIONS

The County Treasurer shall approve and maintain a list of broker/dealers and direct issuers authorized to provide investment services to the County pursuant to California Government Code §53601.5. All investments must be made with institutions that have been approved by the County Treasurer prior to investing. The County's external investment advisors may use their own list of approved broker/dealers and financial institutions for investment purposes. The advisor shall submit the list of approved broker/dealers to the County on an annual basis for review. The criteria for approval is described in a separate *Investment Guidelines and Procedures Manual* maintained by the Treasurer's Office.

In compliance with Section 27133(c) & (d) of the California Government Code, no dealer and/or securities firm shall be eligible if they have made a political contribution in excess of limitation contained in Rule G-37 of the Municipal Securities Rulemaking Board or exceed the limit on horaria, gifts, and gratuities set by State Law, by the Fair Political Practices Commission, or by County ordinance.

14.2 APPROVED LIST OF DEPOSITORY INSTITUTIONS

The County Treasurer shall approve and maintain a list of depository institutions from which the County is authorized to place deposits described in section (L) of the AUTHORIZED INVESTMENT INSTRUMENTS section of this policy. This list will be reviewed on an annual basis by the County Treasurer. An institution must meet the following criteria to be considered by the County Treasurer for deposits described in section (L) of the AUTHORIZED INVESTMENT INSTRUMENTS section of this policy:

- 1) The institution must be located in California.
- 2) The institution must have current financial information, a signed contract and waiver on file with the agency.
- 3) The institution must maintain a net worth to asset ratio of at least 3% and have a positive earnings record.
- 4) The institution must be at least three years old.
- 5) For collateralized investments, the institution must have at least \$100 million in assets and collateralize their deposits in accordance with §53651 and §53652 of the California Government Code.
- 6) The institution shall have received an overall rating of not less than "satisfactory" in its most recent Community Reinvestment Act evaluation.

15.0 CUSTODY & DELIVERY

As required by California Government Code §53601, §53608, and §53635, all investment instruments in a negotiable, bearer, registered, or non-registered format shall be delivered to the County of Tulare's custodial bank by using book entry or physical delivery. All security transactions are to be conducted on a "delivery vs. payment" basis. Securities will be held by a third-party custodian designated by the Treasurer and evidenced by safekeeping receipts. Securities are not to be held in accounts of a financial advisor or the broker/dealer.

16.0 REVIEW AND ANALYSIS OF PROSPECTIVE INVESTMENTS

The securities held by the Treasurer must be in compliance with Section 10 Authorized Investment Instruments at the time of purchase. Because some securities may not comply with Section 10 subsequent to the date of purchase, the Treasurer shall at least quarterly review the portfolio to identify those securities that do not comply. The Treasurer shall report major and critical incidences of noncompliance identified through the review of the portfolio to the Board of Supervisors and to its oversight committee.

Due to the complexity of the various investment instruments available and uncertainty of market conditions the Treasurer may seek professional advice in making investment decisions in order to optimize investment selections, subject to §1-03-2062 of the Tulare County Ordinance Code.

17.0 PERFORMANCE MEASUREMENT

The investment program will be managed in accordance with the parameters specified within this policy and designed with the objective of obtaining a rate of return throughout budgetary and economic cycles commensurate with the investment risk constraints and cash flow needs.

The investment performance objective for the portion of the portfolio managed by the Investment Managers/Advisors shall be to earn a total rate of return that is approximately equal to or greater than the return on a portfolio/index of securities with commensurate risk. The rate of return on the portion of the portfolio managed in-house will be compared to the Local Agency Investment Fund (LAIF) and the average two-year Treasury note. The investment performance measurement benchmarks for the Investment Managers/Advisors shall be stated on the quarterly report based on current contractual agreements. Additional indexes may be used and presented for comparison purposes only.

18.0 REPORTING

The Treasurer shall prepare a quarterly Investment Report to the Board of Supervisors, the County Administrative Officer, the County Auditor, and the Treasury Oversight Committee, within forty-five (45) days following the end of the quarter covered by the report. This report contains, but is not limited to, the following investment information:

- A. The type of investment, name of issuer, date of maturity, par and dollar amount invested in all securities, investments, and monies;
- B. A description of any funds and/or investments that are under the management of contracted parties;
- C. The market value as of the date of the report and the source of this valuation for any security within the Treasury or under management by contract;
- D. The weighted average maturity of investments within the Treasury;
- E. Purchase dates, book values, and current credit rating of issuers;
- F. Yield to maturity;
- G. Overall portfolio yield based on cost;
- H. Statement that the portfolio is in compliance with the Investment Policy or the manner in which the portfolio is not in compliance;
- I. A statement denoting the County's ability to meet its expenditure requirements for the next six months or an explanation as to why sufficient money shall not be available.

All security holdings shall be reconciled no less than monthly by the County Treasurer and a monthly summary Investment Report shall be provided to the Board of Supervisors and the Treasury Oversight Committee.

The Tulare County Treasurer's Investment Pool also issues an *Annual Comprehensive Financial Report*, including the annual audit reports. All reports identified in this section will be placed on the Treasurer's website.

19.0 ONGOING TRAINING AND EDUCATION

The Treasurer's Investment Pool strives for professionalism and accountability in the investment of the funds entrusted to it. In order to ensure the highest possible professional standards, the Treasurer provides opportunities and funding for the personnel involved in the investment function to complete continuing education programs and other training in cash and investment management sufficient to maintain their skills and remain up-to-date on best practices and new regulations.

20.0 INVESTMENT POLICY ADOPTION

The Tulare County Treasurer's Investment Policy Statement for the Pooled Investment Fund shall be presented annually to the Treasury Oversight Committee for review and to the County Board of Supervisors for approval as recommended by California Government Code §53646 and §27133. The investment policy will become effective immediately following adoption by the Board of Supervisors and shall remain in effect as long as the delegation of authority to the Treasurer is in effect and until a subsequent revision is adopted.

(SCHEDULE 1)
POOL INVESTMENT PARAMETERS

Allowable Instruments	County Maximum % of Portfolio	Code Maximum % of Portfolio	County Maximum Maturity	Code Maximum Maturity	County % per Issuer ¹
U.S. Treasury Obligations (§53601(b))	100	100	5 Years	5 Years	100
U.S. Agency Obligations or U.S. Government Sponsored Enterprises (§53601(f))	75	100	5 Years	5 Years	100
Supranational Obligations (§53601(q))	30	30	5 Years	5 Years	5
Medium Term Notes (Corporate) (§53601(k))	30	30	5 Years	5 Years	5
Mortgage and Asset Backed Securities ((§53601(o))	20	20	5 Years	5 Years	5
Bankers' Acceptances (§53601(g))	40	40	180 Days	180 Days	5
Negotiable Certificates of Deposit (§53601(i))	30	30	5 Years	5 Years	5
Repurchase Agreement (§53601(j))	50	None	30 Days	1 Year	N/A
Reverse Repurchase Agreements (§53601(j))	20	20	92 Days	92 Days	10
Bank Time Deposits (§53630 et seq.)	30	None	3 Years	None	25
Bank Deposits – through deposit placement service (§53601.8)	30	50 ²	3 Years	None	25
Money Market Accounts (§53630 et seq.)	50	None	N/A	None	25
Commercial Paper (§53601(h) and (§53635(a))	40	40	270 Days	270 days	5
Money Market Funds (§53601(l))	15	20	N/A	N/A	10
Obligations issued by a State or local agencies within California or any of the other 49 United States (§53601(d)(e))	30	100	5 Years	5 Years	5
Tulare County (§53601(a))	15	100	5 Years	5 Years	5
L.A.I.F. (§16429.1)	Maximum Allowed	Per State Treasury Policy	N/A	N/A	N/A
Managed Investment Pool pursuant to GC §53601(p)	50	None	N/A	N/A	25

¹ With the exception of insured and/or collateralized bank deposits, overnight repurchase agreements, U.S. Government securities, including its agencies and instrumentalities, and authorized pools, no more than 10% of the County's aggregate investment portfolio may be invested in securities of a single issuer. Commercial paper is further limited to 5% of the outstanding paper of the issuing corporation.

² "Bank Deposits – through deposit placement services" code limit of 50% is in effect until January 1, 2026, at which time it will revert back to the previous limit of 30% in accordance with Assembly Bill 945

(SCHEDULE 2)

GLOSSARY OF INVESTMENT TERMS

AGENCIES. Shorthand market terminology for any obligation issued by a *government-sponsored entity (GSE)*, or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FARMER MAC. The Federal Agricultural Mortgage Corporation is a federally chartered GSE that is an institution of the Farm Credit System. Farmer Mac services as secondary market in agricultural loans such as mortgages for agricultural real estate and rural housing.

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called “FreddieMac” issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as “FannieMae,” issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as “GinnieMae,” issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACRF). The official annual report of the Tulare County Investment Pool. 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 sections.

ASKED. The price at which a seller offers to sell a security.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER’S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which “accepts” the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

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

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since an issuer issues securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than \$250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than \$250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (Annual Report). The official annual report of the Tulare County Investment Pool. 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 sections.

COST YIELD. The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

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

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

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

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components (“Stripped” coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker’s acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates.

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

FEDERAL FUNDS RATE. The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

FEDERAL HOME LOAN BANKS (FHLB). Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA). FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation’s purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA’s securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC). Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM. The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR GINNIEMAE). 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. GinnieMae securities are backed by the FHA, VA or FHA mortgages. The term “pass-throughs” is often used to describe GinnieMaes.

GOVERNMENT-SPONSORED ENTERPRISE (GSE). Quasi-governmental entity established to enhance the flow of credit to specific sectors of the American economy. Created by acts of Congress, these agencies, although privately held, provide public financial services. GSEs help to facilitate borrowing for a variety of individuals, including students, farmers, and homeowners. Fannie Mae, Freddie Mac, the Federal Home Loan Bank System, and the Federal Farm Credit System are all considered GSEs.

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

LOCAL AGENCY INVESTMENT FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer’s Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer’s Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MARKING TO MARKET. The process of posting current market values for securities in a portfolio.

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 final date upon which the principal of a security becomes due and payable.

MEDIUM TERM NOTES. All corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating in the United States or by depository institutions licensed by the United States or any state and operating with the United States.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker’s acceptances) are issued and traded.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund’s prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund’s prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO).

A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CD. A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

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

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.

PORTFOLIO. Collection of securities held by an investor.

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

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

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

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

REALIZED YIELD. The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

REPURCHASE AGREEMENT (REPO). Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO). A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed-upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

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.

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

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include

inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries. Examples of a supranational organization include International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

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.

VOLATILITY. The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

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.