

POLICY 2023-01



Terri Mc Brayer
Treasurer-Tax Collector

County of Trinity
2022-23 Investment Policy

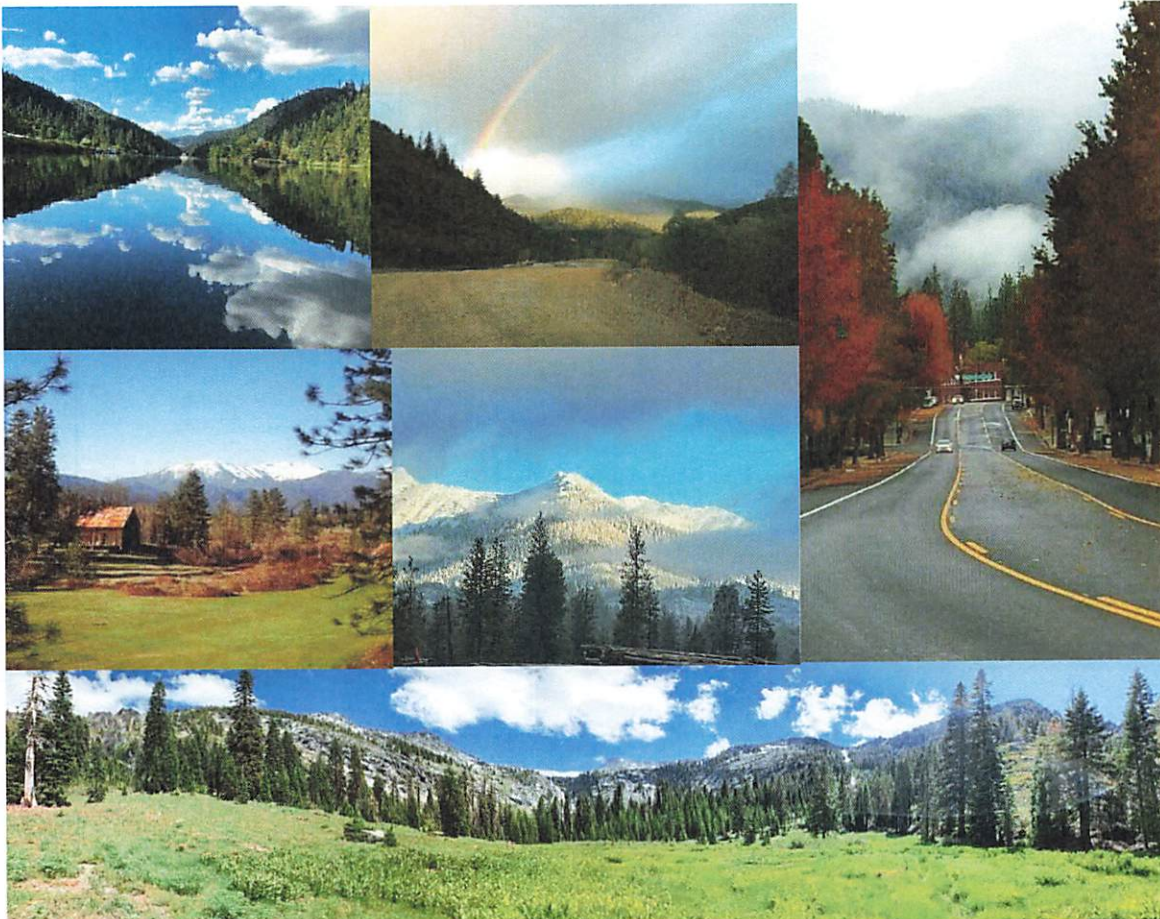


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Glossary

Trinity County Treasurer's Investment Policy

1000. Purpose

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 Trinity County Treasury ("County") in order to provide participants maximum security of funds, liquidity to meet cash flow requirements and the highest investment return available without risking capital or liquidity. This policy applies to funds deposited with the Trinity County Treasurer as part of the Trinity County Treasury Pool ("Pool"). This investment policy has been prepared in conformance with all pertinent existing laws of the State of California, including Government Code Sections 53600, et seq.

2000. Scope

This investment policy applies to all financial assets, investment activities and debt issues of the County of Trinity and all monies entrusted with the Trinity County Treasurer and deposited in the Trinity County Pool by Trinity County School Districts, Fire Districts and Special Districts. The County's Comprehensive Annual Financial Report (CAFR) identifies the fund types incorporated in the County's Investment pool to include:

1. General Fund
2. Special Revenue Funds
3. Enterprise Funds
4. Internal Service Funds
5. Fiduciary Funds
6. Any new funds created by the Board of Supervisors

This policy does not apply to Bond Proceeds, Deferred Compensation, Retirement or Retiree Health Care Savings, Trusts or Plans.

3000. Policy Objectives

3000.1. Safety, Liquidity and Yield

Safety of capital is of main importance. Capital will be protected by investing in vehicles that are highly rated, strongly collateralized and have a high probability in maintaining the principal invested. The portfolio will be diversified by type, issuer and duration to minimize the risk borne by credit deterioration, market changes and interest rate volatility. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be anticipated. This shall be accomplished by structuring the portfolio so that maturity ranges meet normal anticipated disbursement requirements of all depositors determined by historical cash flow needs and

communicated forecasts by depositors. To further protect against cash flow issues, a portion of the portfolio shall be in securities and vehicles with active secondary or resale markets or local government investment pools which offer same-day liquidity for short-term funds. The investment portfolio shall be designed with the objective of achieving a competitive market rate of return or yield, while taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to safety and liquidity. The core investments shall be limited to low risk securities to be held to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security that is deemed to have fallen out of compliance with current policy may be sold at the discretion of the Treasurer.
- A security swap would improve the quality, yield, or target duration of the portfolio.
- The liquidity needs of the portfolio require security to be sold.

3000.2. Prudent Investor Standard

The County Treasurer is a fiduciary subject to the "Prudent Investor Standard". Government Code 53600.3 defines this as "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 and managing public funds, the 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". In compliance with State law, the primary objective in the investment of short term operating "idle" funds is to preserve the capital (safety) while secondly, investing in investment vehicles which are easily converted to cash (liquidity) while lastly, obtaining a reasonable competitive market rate of return (yield).

4000. Delegation of Authority

The authority to manage the County's Investment Pool is derived from Government Code Sections 41001-41007 and 53600-53900. While the Treasurer has final responsibility for all investment decisions, other Treasury personnel may aid in the day to day operations.

5000. Purchase of Investments

Prior to the purchase of an investment pursuant to this policy, the persons authorized to conduct investments shall assess the market and market prices using information obtained from available sources including investment services, broker/dealers, and the media. The investment selected for purchase shall be that investment which, in the opinion of the purchaser, most clearly meets these objectives. Compliance with the restrictive percentages of invested funds on those types of investments as detailed in the government codes of California shall be maintained and based on the portfolio as of the date of the purchase. All security transactions shall be documented at the time the transaction is consummated using the confirmation of investment purchase document prescribed by the Treasurer. At

the time this policy is adopted, the portfolio may hold investments which were made in the past and in accordance with previous policies and existing State law, but do not meet the provisions of this policy. These past investments are considered permissible investments as they complied with policy when purchased. It is at the discretion of the Treasurer to determine whether these securities will continue to be held to maturity or sold.

6000. Daily Demand on Treasury

Idle funds will be declared to be 'active' in accordance with GC 53634, and shall be invested to the maximum extent feasible while minimizing the risk to principal.

7000. Change in Conditions

As provided for in Government Code section 53635, the percentages defined for investments, as well as the types or qualities of investments, shall be determined by the regulations in effect on the date of purchase. Securities or investments that no longer meet revisions in the Government Code or the current or future restrictions of the Policy shall be exempt from the new requirements until maturity or liquidation

8000. Authorized Investments and Respective Legal Limitations

Specific types of investments are defined in GC 53635. Also, GC 53635.2 permits the use of GC 53601 investment instruments, therefore, both GC 53601 et seq. and GC 53635 et seq. are the governing sections pertaining to legal investment instruments. Investments will only be made in authorized securities with a maturity date of five (5) years or less from the transaction settlement date.

A complete and thorough investigation of investment pool programs such as LAIF and CAMP will be conducted prior to investing. This investigation will include a description of:

- Eligible investment securities and written statement of policy
- How gains, losses and interest calculations are performed
- How safekeeping is performed
- Audit procedures
- Depositors and the deposit and withdrawal requirements

NOTE: For the purpose of these investments, the compliance with the investment percentage(s), in regards to the total investment portfolio, shall be calculated on the date the investment is acquired. If the percentage is legally compliant on the date of purchase, then compliance with the law shall have been met.

Bankers Acceptances- (Domestic only) (A draft or bill of exchange accepted by a bank or trust company and brokered to investors in a	Authorized by GC 53601 (g) 1. Not to exceed 180 days
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<p>secondary market. Its purpose is to facilitate trade and provide liquidity to the import-export markets).</p>	<p>2. Not to exceed 40% of portfolio 3. Not to exceed 30% of portfolio if done with one commercial bank</p>
<p>California Asset Management Program ("CAMP" is a California Joint Powers Authority established in 1989, as a vehicle for public agencies to jointly exercise their common power to invest the proceeds of debt issues and Public Agency surplus funds.)</p>	<p>Authorized by GC 53601(p). 1. To be used for liquidity</p>
<p>California State Registered Warrants California State Treasury Notes and Bond (Short-term obligation of the State governmental body issued in anticipation of revenue)</p>	<p>Authorized by GC 53601(c)(d) 1. No limit on amount in the portfolio</p>
<p>CalTrust</p>	<p>Authorized by GC 53601(p) 1. No limit on amount in the portfolio</p>
<p>Certificates of Deposit (A deposit of funds made by the County Treasurer in state or national banks, savings and loans institution, federal credit unions, or FDIC insured</p>	<p>Authorized by GC 53635, GC53635.2, GC53635.8, GC53636, GC 53637, GC 53638, GC 53641 1. Must not exceed the shareholder's equity of any depository bank companies in the United States 2. Must not exceed the total net worth of any savings association or federal association 3. Must not exceed the total unimpaired capital and surplus of any credit union 4. Must not exceed the total unimpaired capital and surplus of any industrial loan company 5. Not to exceed 30% of portfolio 6. Must not exceed 5-year maximum term</p>
<p>Commercial Paper (Short-term, unsecured, promissory notes issued by firms in the open market. These notes are generally backed by a bank credit facility, guarantee bond of indemnity, or some other support agreement).</p>	<p>Authorized by GC 53601(h), GC 53601.2, GC 53635(a) 1. The corporations "other" debt must be rated "A" or better 2. Only U.S. corporations, having assets of \$500 million 3. Not to exceed 270 days 4. Total of ALL commercial paper in the portfolio may not exceed 40% of "Dollar Weighted" average balance 5. Not to exceed 10% of outstanding paper with one corporation</p>
<p>Funds: Money Market (Shares of beneficial interest issued by management companies. Shares represent</p>	<p>Authorized by GC 53601 (I) 1. The pooled investments that comprise these 'funds' must comply with 53601 and 53630</p>

<p>ownership of a diversified portfolio of securities, which are redeemable at their net asset value).</p>	<p>inclusive 2. Not to exceed 20% of portfolio, no more than 10% invested in any one money market fund 3. Must have attained the highest credit ranking requirements for money market mutual funds as described in 53601(I)(3)(A)</p>
<p>Government Obligations: U.S. Treasury and Agency Obligations (U.S. Treasury obligations are bills, notes, and bonds issued by and direct obligations of the U.S Govt. Agency obligations are notes and bonds of Federal agencies and government sponsored enterprises, although not direct obligations of the Treasury, they involve federal sponsorship or guarantees).</p>	<p>Authorized by GC 53601(b), (f) 1. No limit on amount in the portfolio 2. Needs Board approval beyond 5 years (GC 53601) 3. No minimum credit requirement</p>
<p>Local Agency Investment Fund (LAIF) (A voluntary program created by statute in 1977 as an investment alternative for California's local governments and special districts).</p>	<p>Authorized by GC 16429.1 (b) 1. Places cap of \$65 million of Treasury Pool 2. To be used for liquidity</p>
<p>Local Agency Obligations (Bonds, notes, warrants or other evidences of indebtedness of any local agency or by a department, board or authority of any local agency within the 50 United States).</p>	<p>Authorized by GC 53601(a)(c)(d) 1. Must comply with the financial requirements pertaining to temporary borrowing (TRANS, RANS, CANS) as shown in GC 53820 - 53858 2. Minimum credit requirement — Issuers must be at or above the following investment grade from one of these rating firms: Standard's & Poor's — Sp-1 or A; Fitch — F-1 or A; Moody's — MIG 1 or A</p>
<p>Medium-Term Notes (Corporate notes, Deposit notes and Bank Notes sold by an agent in the open market on a continually offered basis. These notes are debt obligations generally unsecured, although some issues come to market on a collateralized or securitized basis).</p>	<p>Authorized by GC 53601 (k) ,GC 53601.2 1. Must have an "A" rating or better Issued by: a. U.S. corporations b. U.S. licensed depository institutions c. State licensed depository institutions 2. Not to exceed 30% of portfolio 3. Not to exceed 5% of the portfolio with one single issuer</p>
<p>Negotiable Certificates of Deposit (Issued by commercial banks and thrift institutions</p>	<p>Authorized by GC 53601(1) , GC 53638</p>

<p>against funds deposited for specified periods of time and earn specified or variable rates of interest. NCD's differ from other CD's because of their increased liquidity as they are actively traded in the secondary market).</p>	<ol style="list-style-type: none"> 1. Not to exceed 30% of maximum portfolio 2. Must not exceed the shareholder's equity of any depository bank 3. Must not exceed the total net worth of any savings association or federal association 4. Must not exceed the total unimpaired capital and surplus of any credit union 5. Must not exceed the total unimpaired capital and surplus of any industrial loan company
<p>Pass-Through Security (A type of security that represents repackaged pooled debt obligations that passes income from debtors to investors.)</p>	<p>Authorized by GC 53601(1)</p> <ol style="list-style-type: none"> 1. No limit on the amount in the portfolio <p>Collateralized. GC 53651(a) and /or 53651(f) @ 100% FDIC is acceptable to its legal limit.</p>
<p>Repurchase Agreement (These are agreements between an investor (the pool) who agrees to purchase securities and a seller (dealer/broker), who commits to repurchase these securities at a later date at the same price, plus interest).</p>	<p>Authorized by GC 53601(j)</p> <ol style="list-style-type: none"> 1. Market value of the security must be 102% or greater, and adjusted quarterly 2. The minimal market value of 102% cannot be established by more than the next business day 3. Requires a signed Master Repurchase Agreement from the participating bank or broker/dealer 4. Term of agreement may not exceed one year
<p>Reverse Repurchase Agreement (This is the reverse of a repurchase agreement, where the pool becomes the seller and the dealer or broker is the investor).</p>	<p>Authorized by GC 53601(j)</p> <ol style="list-style-type: none"> 1. Must have legislative body approval 2. Purchases and sells may only be made with primary dealers of the Federal Reserve Bank or a nationally or state chartered bank that has a significant relationship with the county 3. Not to exceed 92 days 4. Securities to be sold must be held by and paid for by the local agency for a minimum of 30 days 5. Total of all reverse repurchase agreements and securities does not exceed 20% of the base value of the portfolio

Supranational (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)	Authorized by GC 53601(q) 1. Maximum maturity of five years or less 2. Eligible for purchase and sale within the United States 3. "AA" rated or better by an NRSRO 4. Not to exceed 30% of the portfolio
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8000.1 Collateralization

Collateralization is limited and defined under provision of the Government Code, specifically, GC 53652(a), 53651(a) and 53651(f). These requirements are as follows:

Bank Deposits:

Under provisions of the Government Code, California financial institutions are required to secure the County's deposits by pledging government securities with a value of 110% of principal and accrued interest.

Certificates of Deposit:

The market value of securities that underlay certificates of deposit shall be valued at 110% of the market value of principal and accrued interest. The Treasurer, at his/her discretion may waive the collateral requirement for deposits up to the maximum dollar amount which are covered by the Federal Deposit Insurance Corporation, currently \$250,000.

Repurchase Agreements:

The market value of securities that underlay certificates of deposit shall be valued at 102% of the market value of principal and accrued interest. The value shall be adjusted no less than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back to 102% no later than the next business day. A clearly marked evidence of ownership, safekeeping receipt, must be supplied to the County and retained. Collateral will always be held by an independent third-party with whom the entity has a current written custodial agreement.

9000. Investment Strategies

9000.1 Credit & Interest Rate Risk Management

To protect the Pool from credit and interest rate risk, the Treasurer has adopted the following practices:

- Investments contained within the portfolio will be diversified by type, institution and maturity. These guidelines are listed under Authorized Investments.
- Limits placed on the percentage of portfolio held by single issuer in Medium Term Notes and Commercial paper not to exceed 5% and 10%, respectively.
- Investments will be matched with cash flow requirements in a laddered fashion to minimize interest rate risk.
- The County Treasurer may elect to sell a security prior to maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions.
- In instances where a security is downgraded by a rating agency to a level below the standards required by the policy or State law, the Treasurer shall review the credit situation and make a determination, based on what is best for the portfolio as to whether to sell or retain the security. Retained securities will be followed closely for further events that could pose risk to the portfolio.

9000.2 Performance Standards

The performance of the Treasury Pool portfolio shall be managed in accordance with the standards established within this Investment Policy and should obtain a market rate of return throughout budgetary and economic cycles. The basis to determine whether market yields are being achieved shall be the total return of the portfolio.

10000. Criteria for Selecting Brokers and Dealers

In order to eliminate risk in making investments under this Policy, all investments will be made only through qualified brokers/dealers. All broker/dealers that wish to become qualified bidders for investment transactions with the County shall submit a "broker/dealer questionnaire" and all required documents set forth in this questionnaire. Broker/dealers will be selected based upon fulfilling the requirements and upon the recommendation of the Treasurer and will be reviewed annually. Selection of broker/dealers from among the primary dealers, major money center banks and other firms shall be based upon the following criteria:

- The reputation and financial strength of the company or financial institution and the reputation and expertise of the individuals employed which will be determined through a review of audited financial statements and FINRA reports.
- The Treasurer shall be prohibited from selecting any broker, brokerage firm, dealer, or securities firm that has, within any 48 consecutive month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in rule G-37 of the municipal securities rulemaking board, to the local Treasurer, any member of the Board of Supervisors, any member of the governing board of a local agency having funds held in the County Treasury, or any candidate for those offices.
- No broker/dealer shall be approved unless such broker/dealer agrees to comply with the provisions of the County investment policy.

- The broker/dealers shall acknowledge receipt of the County investment policy and agree to comply with the policy in the course of conducting business with the County Treasurer.

11000. Safekeeping, Internal Controls and Oversight

11000.1. Safekeeping

Please note that GC section 53651 pertains to the safekeeping of public funds by an agent or a depository. All securities, with the exception of collateralized certificates of deposit, which will be held by Treasurer-Tax Collector, will be held in safekeeping by a third party under contract with the County. All investment transactions of the County will be conducted using standard delivery vs. payment (DVP) procedures. It is the safekeeping provider's responsibility to settle all trades in accordance with instructions received from the County, to credit the County with all interest payments when due, to credit the County with all maturities when due, to notify the County of call notices received and credit the County on redemption date, and to report all activity to the County. The Treasurer will require depositories to provide evidence that they are taking reasonable measures to prevent unauthorized access to the depository's electronic data files.

11000.2. Internal Controls

The Treasurer shall establish a system of internal controls, in writing, to provide reasonable assurance that the investment objectives are met and to ensure that the assets are protected from fraud, employee error, and misrepresentation by third parties, and unanticipated changes in financial markets. Such procedures shall include explicit delegation of authority to persons responsible for the investment transaction. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the County Treasurer.

Internal controls should include but are not limited to:

1. Segregation of duties (e.g., the purchaser of investments is different than the person recording the transaction)
2. Reconciliation of investment report and cash balances with Auditor-Controller
3. Dual authorization of transactions

Internal controls are maintained in order to prevent:

1. Fraud
2. Theft
3. Loss of principal
4. Loss of control over funds
5. Inaccurate reporting
6. Negligence
7. Over-reliance on a single employee for investment decisions

An external auditor will review the investment program annually in order to provide reasonable assurance that policy and procedures are complied with.

11000.3. Treasury Oversight Committee

Government Code Section 27131 states that the Board of Supervisors in each County may, if the County is investing surplus funds, establish a County Treasury Oversight Committee. Trinity County operated with a Treasury Oversight Committee until it was dissolved by the Board of Supervisors by resolution #2016-043 on May 17, 2016. Oversight is provided by monthly public reports to the Board of Supervisors, Auditor-Controller and the County Administrative Officer and by thorough audits by the County Auditor-Controller and external audit firms.

12000. Reporting

The Treasurer will review the portfolio on a weekly basis to assure compliance with the policy and will provide a monthly report to the Board of Supervisors which will include the following information by security held at the end of the reporting period:

1. Investment Type
2. Issuer
3. Maturity Date
4. Par Value
5. Market Value
6. Book Value
7. Yield to Maturity
8. Stated Rate

Quarterly, the Treasurer will submit a report to the Board of Supervisors with the same investment information provided on a monthly basis with the addition of the following data:

1. A description of the compliance with the statement of investment policy, or manner in which the portfolio is not in compliance.
2. A statement denoting the ability of the County to meet cash flow requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.
3. Quarterly interest apportionment calculations to include:

- Average Daily Balance
- Gross Interest Earned
- Bank/Safekeeping Fees
- Treasurer's Admin Fee
- Net Interest Apportioned
- Gross Interest Rate
- Apportioned Interest Rate

13000.0 Deposits into the Treasury

13000.1 Terms for Funds Invested With the Treasury

The Government Code requires 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 as to how funds for which the Treasurer is held responsible for overseeing, are to be invested. The Treasurer must take into consideration the current financial condition of the sum total of the Pool's agencies, the conditions of the market place, as well as 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 also 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 others affected. All Pool entities agree that by placing funds in such accounts that they agree to proportionately participate in all investments within the Investment Pool.

Funds will be accepted, in the manner prescribed, from those local 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 Pool. Funds will earn interest based on the average daily balance, paid on a quarterly basis.

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 the specific permission of the Treasurer. Any such investments shall either be terminated and all funds returned to the Pool, or the securities so purchased shall 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.

13000.2 Deposits from Voluntary Depositors

Although GC 53684 allows the Treasurer to accept funds from other counties, other districts or agencies within other counties, which are not legally required to deposit their funds into the Treasury, otherwise called voluntary depositors.

The Treasurer shall 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.

Local agencies from outside the County will not be permitted to deposit funds in the County Pool. Funds from local agencies within the County, voluntarily wishing to participant in the Pool, shall be accepted under the terms existing in this Policy. Voluntary money may be withdrawn under conditions set forth in Sections 27133 and 27136 of the Government Codes. Specific investments are not normally permitted with voluntary funds, though on a cost recovery basis and under circumstances that dictate such activity, exceptions may be permitted.

14000. Investment Earnings and Expenses

Prior to quarterly interest distribution, investment costs incurred by the Treasurer will be deducted from the interest earnings of the pool on an equitable distribution formula. The costs which are authorized by Government Code section 27013, are made up of direct costs (salaries, banking and investment services, computer services, and supplies), and indirect costs (office overhead and external overhead).

The total earnings apportionment is derived from the total interest received less total charges for Treasury Administration, divided by the average daily balance of the total Treasury pool. This calculation results in a reciprocal factor which equates to the rate that is applied to each pool participant's average daily cash balance expressed as a percentage of the total pools average daily cash balance. The apportionment process is conducted based on the net earnings of the pool each quarter. The apportionment rate is applied to the quarter end balances in each fund and all earnings are received by a credit to the pool participants' fund balance.

15000.0 Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment process or that impairs their ability to make impartial investment decisions. The Treasurer and Assistant Treasurer-Tax Collector, or designated employees, shall abide by the regulations of the Fair Political Practices Commission and shall disclose his/her investments, interests in real properties, and any income received during the immediately preceding 12 months. Such disclosure shall be in writing, and shall be filed with the officer designated by law within the time periods specified by law.

16000.0 Limits on Honoraria, Gifts and Gratuities

The Treasurer-Tax Collector, Assistant Treasurer & Tax Collector and designated Treasurer-Tax Collector employees SHALL be governed by the provision of the State Political Reform Act relating to the limitations and reporting of Honoraria, Gifts and Gratuities.

DULY PASSED AND ADOPTED this 21st day of March, 2023 by the Board of Supervisors of the County of Trinity.



Jill Cox, Chairman
Board of Supervisors
County of Trinity
State of California

ATTEST:
Elizabeth Hamilton
Clerk of the Board of Supervisors

By: 

Deputy

Glossary of Terms

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

Broker: A person who acts as an intermediary between a buyer and seller, usually charging a commission.

California Asset Management Program (CAMP): is a California Joint Powers Authority established in 1989, as a vehicle for public agencies to jointly exercise their common power to invest the proceeds of debt issues and Public Agency surplus funds.

CalTRUST: is a Joint Powers Authority created by public agencies in 2003 to provide a convenient method for public agencies to pool their assets for investment purposes.

Corporate Notes- Medium Term Notes: Debt instrument issued by a private corporation, as distinct from one issued by a government agency or a municipality.

Certificate of Deposit (CD): Debt instrument issued by a bank that usually pays interest. Maturities range from a few days to a few years. Large denomination CD's are often negotiable.

Commercial Paper: Short term obligations with maturities ranging from 2 to 270 days that are issued by banks, corporations and other borrowers to investors with temporarily idle cash.

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

Coupon: The annual rate of interest on a debt security that a bond issuer promises to pay the bondholder on the bond's face (or par) value.

Dealer: A person or firm acting as a principal in a securities transaction, buying and selling for his own account.

Derivatives: Financial instruments whose value is based on the performance of another security. These instruments often include a leveraging factor. They gained notoriety in the late 80's and in the 90's when municipalities, corporations and leading banks were adversely affected. Types of derivatives include: inverse floaters, range notes, interest only strips, and zero "strip" coupons. These types of investments are prohibited by Government Code section 53601.6 as a public fund investment.

Discount: The manner of selling securities such as treasury bills, agencies notes, which are issued at less than face value and are redeemed at face value.

Federal Agency Securities: Securities issued by agencies of the Federal Government such as Federal Farm Credit Bank (FFCB) and the Tennessee Valley Authority (TVA), Federal National Mortgage Association (FNMA) that are not general obligations of the U.S. treasury but are sponsored by the government and therefore have high safety ratings.

FDIC: Federal Deposit Insurance Corporation is a U.S Government corporation operating as an independent agency created by the Banking Act of 1933. It provides deposit insurance guaranteeing the safety of a depositor's accounts in member banks up to \$250,000 for each deposit ownership category in each insured bank.

Futures Contract: Agreement to buy or sell a specific amount of a commodity, a currency, or a financial instrument at a particular price on a stipulated future date. The price is established between the buyer and the seller on the floor of a commodity exchange.

Liquidity: The ability to buy or sell an asset quickly and in large volume without substantially affecting the asset's price.

Local Agency Investment Fund (LAIF): The California pool of local agency assets, which is managed by the State Treasurer. Limits apply to each agency's deposit of general fund reserves; however no limits on amount of deposit apply to bond proceeds. Funds in this pool are considered very liquid.

Market Value: Current market price of a security- as indicated by the latest trade recorded.

Mark to the Market: The adjustment of the valuation of a security or portfolio to reflect current market values.

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

Money Market: The market in which short term debt instruments (bills, commercial paper, bankers acceptances) are issued and traded.

Mortgage Pass-Through Obligations: a government guaranteed security that represents pooled debt obligations repackaged as shares, that passes income from homeowner's principal and interest payments through a government agency or bank to investors.

Negotiable Certificates of Deposit: A large denomination time deposit with a specific maturity evidenced by a certificate. These are traded like other fixed income securities.

NRSRO: A Nationally Recognized Statistical Rating Organization is a credit rating agency that issues credit ratings that the U.S Securities Exchange Commission permits other financial firms to use for certain regulatory purposes.

Option: A securities transaction agreement that is tied to stocks, commodities, currencies or stock indexes.

Portfolio: A collection of securities held by an investor.

Premium: The amount by which a bond sells above its face (par) value.

Repurchase Agreements: Agreement between a seller and a buyer, usually of government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and at a stated time. The security buyer in effect lends cash money to the security seller for the period of the agreement and the terms of the agreement are structured to compensate the security buyer for this transaction. Similarly,

reverse repurchase agreements are an agreement where a dealer agrees to buy the securities and the investor agrees to buy them back on a specific date.

Safekeeping: A service rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Secondary Market: Exchanges and over-the-counter markets where securities are bought and sold subsequent to original issuance, which took place in the primary market. Proceeds of secondary market sales accrue to the selling dealers and investors, not to the companies that originally issued the securities.

Securities and Exchange Commission (SEC): The Federal Agency created by Congress to protect investors in security transactions by administering securities legislation.

Settlement Date: The date by which an executed order must be settled, either by a buyer paying for the securities with cash or by a seller delivering the securities and receiving the proceeds of the sale for them.

Supranational Investments: Includes international financial institutions such as the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC) and the Inter-American Development Bank (IDB) that offer financial services to encourage development in developing countries.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance national debt. Most bills are issued to mature in three (3), six (6), or twelve (12) months.

Treasury Bonds: Medium-term interest bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two (2) to ten (10) years.

Yield: The rate of return on an investment expressed as a percentage that takes into account the total of annual interest payments, the purchase price, the redemption value and the amount of time remaining until maturity.