CITY OF MORGAN HILL
CITY COUNCIL POLICIES AND PROCEDURES

POLICY NUMBER: CP-94-04
TITLE: INVESTMENT POLICY
EFFECTIVE DATE: June 8, 1988
REVISED DATE: July 20, 2016; July 15, 2015; January 26, 2011; September 26, 2007; June 15, 1994

TABLE OF CONTENTS

CITY OF MORGAN HILL

Statement of Investment Policy

SCOPE

The City of Morgan Hill's (the City's) Investment Policy (the Policy) applies to all funds under the control of the City and includes the general revenues of the City, Successor Agency to the former Morgan Hill Redevelopment Agency (Agency), enterprise fund revenues, and proceeds of bond sales, debt service revenues, and trust funds in the custody of the City.

For simplicity, this Policy shall refer to "City" even when it applies to the Agency, except that the City and Agency shall be distinguished whenever the role of the City Council or Agency Board is described, whenever the role of the City Manager or Executive Director is described, or whenever the role of the City Treasurer or Director of Finance is described.

INVESTMENT OBJECTIVES

The City's funds shall be invested in accordance with all applicable City policies and codes, State statutes, Federal regulations, and bond covenants, and in a manner designed to accomplish the following objectives, which are listed in priority order:

A. **Safety of Principal**

Safety of principal is the City's foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to minimize capital losses by avoiding credit risk and market risk, as defined below:

1. Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in only the highest quality securities (see authorized investments) and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the City's cash flows.

2. Market risk, defined as the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by structuring the portfolio so that securities mature at the same time that major cash outflows occur, thus eliminating the need to sell securities prior to maturity. It is explicitly recognized, however, that in a diversified portfolio, occasional measured losses may occur, and must be considered within the context of the overall investment return.

B. **Liquidity**

Liquidity is the second most important objective of the investment program. The investment portfolio shall remain sufficiently liquid to enable the City to meet all reasonably anticipated operating requirements.

C. Yield

The City portfolio shall be invested to attain a market average rate of return through economic cycles, as long as it does not diminish the superior objectives of safety and liquidity. The market rate of return is defined as the average return on the 1-year U.S. Treasury Bill. Whenever possible, and after the objectives of safety of principal and liquidity have been met, a yield higher than the market rate of return shall be sought.

DELEGATION OF AUTHORITY FOR CITY FUNDS

The City Council has appointed the City Treasurer responsible for undertaking investment transactions on behalf of the City. Unless specifically designated by the City Council, the only officials authorized to undertake investment transactions on behalf of the City are the City Treasurer, Assistant City Manager for Administrative Services, and City Manager. The City Manager or designee, as applicable, shall review all investment purchases before they occur. The City Treasurer and City Manager will observe, review, and react to the changing conditions that affect the investment portfolio. They will meet on a regular basis to discuss current market conditions, future trends and how each of these affects the investment portfolio and the City.

The City Treasurer and City Manager shall develop and maintain administrative procedures and internal controls, consistent with this Policy, for the operation of the City's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the City.

DELEGATION OF AUTHORITY FOR AGENCY FUNDS

The Agency Board has appointed the Director of Finance responsible for undertaking investment transactions on behalf of the Agency. Unless specifically designated by the Agency Board, the only officials authorized to undertake investment transactions on behalf of the Agency are the Director of Finance and Agency Executive Director. The Executive Director or designee, as applicable, shall review all investment purchases before they occur. The Director of Finance and Executive Director will observe, review, and react to the changing conditions that affect the investment portfolio. They will meet on a regular basis to discuss current market conditions, future trends and how each of these affects the investment portfolio and the Agency.

The Director of Finance and Executive Director shall develop and maintain administrative procedures and internal controls, consistent with this Policy, for the operation of the Agency's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the Agency.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any larger personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales, and shall avoid transactions that might impair public confidence in the City's ability to govern effectively.

EVALUATION OF INVESTMENTS

The standard of prudence to be used for managing the City's investment program is California Government Code Section 53600.3, the prudent investor standard which states, "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

City investment officers acting in accordance with this Policy and the "prudent person" standard and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that substantial deviations from expectations are reported by the City Treasurer or Assistant City Manager for Administrative Services (for the City) or by the Director of Finance (for the Agency) to the City Manager or Executive Director, as applicable, within three days of discovery. Mutually agreeable remedial action will be taken by the City Treasurer and City Manager (for the City) or by the Director of Finance and Executive Director (for the Agency) and reported to the City Council or Agency Board, as applicable, at their next regularly scheduled meeting.

SELECTION OF BROKER/DEALERS

The City Treasurer (for the City) and Director of Finance (for the Agency) shall jointly maintain a list of broker/dealers approved for investment purposes, and it shall be the policy jointly of the City and the Agency to purchase securities only from those brokers and the firms they represent. Each approved broker/dealer must possess an authorizing certificate from the California Commissioner of Corporations as required by Section 25210 of the California Corporations Code.

To be eligible, a firm must meet at least one of the following criteria:

1. be recognized as Primary Dealers by the Federal Reserve Bank of New York or have a primary dealer within their holding company structure, or
2. report voluntarily to the Federal Reserve Bank of New York, or

3. qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

The City Treasurer (for the City) and Director of Finance (for the Agency) will select broker/dealers on the basis of their expertise in public cash management and their ability to provide service to the account(s). Each authorized broker/dealer shall submit and annually update an approved Broker/Dealer Information Request form that includes the firm's most recent financial statements.

The City Treasurer (for the City) and Director of Finance (for the Agency) shall determine if the broker/dealers are adequately capitalized, make markets on securities appropriate to the City's needs and are recommended by managers of portfolios similar to the City's. The City Treasurer (for the City) or Director of Finance (for the Agency) shall submit findings and recommendations to the City Council or Agency Board, as applicable. The City Council and Agency Board will determine which broker/dealers will be authorized to trade with the City as part of their annual review of this Policy,

In the event that an external investment advisor is not used in the process of recommending a particular transaction in the City's or Agency's portfolio, authorized broker/dealers shall attest in writing that they have read and understand this Policy.

AUTHORIZED INVESTMENTS

All investments and deposits of the City shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686. The City has further limited the types of allowable securities to those shown in the following list:

A. United States Treasury Bills and Notes with maturities not exceeding five years from the date of trade settlement. There is no limitation on the percentage of the portfolio which can be invested in this category.

B. Federal Instrumentality (government sponsored enterprise) debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of trade settlement issued by the following only: the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA or Fannie Mae), the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), the Tennessee Valley Authority (TVA), and the Government National Mortgage Association (GNMA, but only if the security is backed by the full faith and credit of the U.S. government). Although there is no percentage limitation of the dollar amount or percentage of the portfolio that can be invested in these issuers, the "prudent person" rule shall apply for any single agency name.

C. The Local Agency Investment Fund (LAIF), established by the State Treasurer for the benefit of local agencies and identified under Government Code Section 16429.1, is authorized up to the maximum amount pursuant to California Government Code Section 16429.1

D. Inactive deposits with Banks and Savings and Loans with a branch within California that has a rating of at least A-1 or the equivalent from a nationally recognized statistical rating organization (NRSRO), and has an equity to total assets ratio of at least 4%. All deposits shall be secured in accordance with Sections 53651 and 53652 of the California Government Code and comply with Schedule I (Policy Statement of Collateralized Time Deposits) attached. If deposits are not collateralized, the maximum placed at any one institution will be $250,000. The maximum amount of collateralized inactive deposits placed at any one institution shall not constitute more than 10% of the total assets of the institution or $2,000,000, whichever is less, and shall not exceed the total shareholders' equity of the issuing institution.

E. Money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 that (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) have a constant net asset value per share of $1.00; (3) invest only in the securities and obligations authorized in the applicable California statutes and (4) have a rating of at least AAAm or the equivalent by at least two NRSROs. The aggregate investment in money market funds shall not exceed 20% of the City's total portfolio. The City shall use only those money market funds consisting of investments considered prudent in nature for any fiduciary.

INVESTMENT POOLS

The Local Agency Investment Fund (LAIF) is authorized under provisions in Section 16429.1 of the California Government Code. The City's participation in the pool was previously approved by the City Council and Agency Board. City Council review and approval is required prior to investment in any other local government investment pool.

SAFEKEEPING OF SECURITIES

The City Treasurer (for the City) and the Director of Finance (for the Agency) shall select one or more banks to provide safekeeping and custodial services for the City. A Safekeeping Agreement approved by the City shall be executed with each custodian bank prior to utilizing that bank's safekeeping services.

Custodian banks will be selected on the basis of their ability to provide services for the City's account and the competitive pricing of their safekeeping related services.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. All securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, except non-negotiable Certificates of Deposit, Money Market Funds and LAIF, purchased by the City will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by a City approved custodian bank, its correspondent bank or its Depository Trust Company (DTC) participant account.

All Fed wireable book entry securities owned by the City shall be held in the Federal Reserve System in a customer account for the custodian bank which will name the City as "customer."

All DTC eligible securities shall be held in the custodian bank's DTC participant account and the custodian bank shall provide evidence that the securities are held for the City as "customer."

DIVERSIFICATION

The City will diversify its investments by security type and investment to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. With the exception of bond reserve funds, bond escrow funds, and any other funds approved by the City Council, at all times at least 50% of the total portfolio shall mature in three years or less; at least 30% of the total portfolio shall mature in two years or less; and at least 20% of the portfolio shall mature in one year or less.

MAXIMUM MATURITIES

The City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, as approved by the City Council or Agency Board, as applicable, and otherwise allowed by law, the City will not directly invest in securities maturing more than five years from the date of trade settlement. Bond reserve funds, bond escrow funds, and any other funds approved by the City Council or Agency Board, as applicable, may be invested in securities exceeding five years if the maturities of such investments are made to coincide as nearly as possible with the expected use of the funds. The weighted average final maturity of the investment portfolio shall not exceed two and one-half years.

PERFORMANCE BENCHMARKS

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the investment portfolio shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the investment portfolio's weighted average effective maturity. When comparing the performance of the investment portfolio, all fees involved with managing it shall be included in the computation of its rate of return net of fees.

BOND PROCEEDS

Proceeds of bond sales and debt service reserve funds and other bond-related monies (or funds) may be invested in any investments authorized under both California Government Code Section 53600, et. seq. and the applicable bond covenants related to a bond sale. Securities authorized by a bond covenant that are not authorized by this Policy will only be used if they are specifically approved by the City Council or Agency Board, as applicable. Unless otherwise approved by the City Council or Agency Board, as applicable, all securities will be held in third-party safekeeping with the bond trustee, and all delivery-versus-payment rules will apply. Fees will be collected annually to compensate for administration costs.

COMPETITIVE TRANSACTIONS

All investment transactions shall be conducted competitively with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction, except when purchasing new issue securities, and their bid or offering prices shall be recorded.

If the City is offered a security for which there is no other readily available competitive offering, then the City Treasurer (for the City) or the Director of Finance (for the Agency) will document quotations for comparable or alternative securities.

REPORTING REQUIREMENTS

The City Treasurer (for the City) and Director of Finance (for the Agency) shall render, at least quarterly, reports of investment activity to the City Council and Agency Board within 30 days following the end of the quarter. Each report will include the following information:

1. Investment type, issuer, date of maturity, par value and dollar amount invested in all securities, and investments and monies held by the City;
2. A description of the funds, investments and programs managed by contracted parties;
3. A market value as of the date of the report (or the most recent valuation as to assets not valued monthly) and the source of the valuation;
4. A statement of compliance with the investment policy or an explanation for non-compliance; and
5. A statement of the City's ability to meet expenditure requirements for six months, and an explanation of why money will not be available if that is the case.

INVESTMENT POLICY REVIEW

The City Treasurer (for the City), working with the Director of Finance (for the Agency),shall periodically review and make recommendations regarding the City's Investment Policy to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield and diversification and its relevance to current law and economic trends. Amendments to this Investment Policy shall be approved by the City Council.

CITY OF MORGAN HILL

POLICY STATEMENT ON COLLATERALIZED TIME DEPOSITS

SCHEDULE I

Before the City Treasurer can place a time deposit with a local bank or savings and loan, the following criteria must be met:

1. The bank must provide the City with an executed copy of the "Contract for Deposit for Moneys" as specified in Section 53649 of the California Government Code.

2. The interest rate on the Time Certificate of Deposit must be competitive with rates offered by other banks and savings and loans and must exceed the interest rate for treasury bills for a similar maturity period.

3. For investments less than $250,000, FDIC insurance will be sufficient without requiring any collateral to be pledged with the Federal Reserve to secure the public fund deposit.

4. For investments exceeding $250,000, there may be a waiver of collateral for the first $250,000 deposited, and all of the funds placed on deposit must be collateralized by 110% of U.S. Treasury or Federal Agency securities, or by 150% of mortgages having maturities less than five years in accordance with Section 53652 of the California Government Code. The City must receive confirmation that these securities have been pledged in repayment of the time deposit. The securities pledged must be maintained at a current market value 10% greater than the dollar amount of the deposit.

5. The City must be given a current audited financial statement for the financial year just ended as well as the most recent quarterly statement of financial condition. The financial reports must both include a "statement of financial condition" as well as an "income statement" depicting current and prior year operations.

6. The City will not place a fund deposit for more than $2,000,000, or 10% of the assets of the institution, whichever is less.

7. The City must receive a certificate of deposit which specifically expresses the terms governing the transaction, (i.e., the period of time, name of depositor, interest rate, etc.).

8. All time certificates must have a maturity period not exceeding two years from the date of deposit with quarterly payments of interest based upon the stated interest rate.

9. The City must also receive a letter from the comptroller and/or treasurer of the bank at the time the deposit is made, that there is no known pending financial disclosure or public announcement of an adverse financial event involving the bank or savings and loan, nor is there any knowledge that a conflict of interest situation exists with any City official, officer or employee at the time the bank is receiving this deposit. The City has a fiduciary responsibility to make prudent investment of public funds, and to assure its investment practices are absent of any financial inducement or conflict in interest whatsoever.

10. Time deposits will only be made with qualified banks and savings and loans having branch office locations within Santa Clara County. However, time deposits with a bank or savings and loan must be centralized at one designated office location rather than making separate deposits with each branch office.

CITY OF MORGAN HILL
POLICY CRITERIA FOR SELECTING BROKER/DEALERS
SCHEDULE II

1. Each approved broker/dealer must possess an authorizing certificate from the California Commissioner of Corporations as required by Section 25210 of the California Corporations Code.

   To be eligible, a firm must meet at least one of the following criteria:

   1. be recognized as Primary Dealers by the Federal Reserve Bank of New York or have a primary dealer within their holding company structure, or
   2. report voluntarily to the Federal Reserve Bank of New York, or
   3. qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

   The City Treasurer (for the City) and Director of Finance (for the Agency) will select broker/dealers on the basis of their expertise in public cash management and their ability to provide service to the account(s). Each authorized broker/dealer shall submit and annually update an approved Broker/Dealer Information Request form that includes the firm's most recent financial statements.

   The City Treasurer (for the City) and Director of Finance (for the Agency) shall determine if the broker/dealers are adequately capitalized, make markets on securities appropriate to the City's needs and are recommended by managers of portfolios similar to the City's. The City Treasurer (for the City) or Director of Finance (for the Agency) shall submit his findings and recommendations to the City Council or Agency Board, as applicable. As part of their periodic review of the Investment Policy, the City Council and Agency Board will determine which broker/dealers will be authorized to trade with the City.

   In the event that an external investment advisor is not used in the process of recommending a particular transaction in the City's or Agency's portfolio, authorized broker/dealers shall attest in writing that they have read and understand a copy of this Policy.

2. The net capital position of the firm shall be in excess of $100 million.

3. The intent of the City Treasurer (for City) and Director of Finance (for Agency) is to enter into a long-term relationship. Therefore, the integrity of the firm and the personnel assigned to our account is of primary importance.

5. The firm must provide an active secondary market for the securities it sells.

6. The firm must specify the types of securities it specializes in and will be made available for the City's account.

7. It is important that the firm provide related services that will enhance the account relationship which could include:
   a) An active secondary market for its securities.
   b) Internal credit research analysis on commercial paper, banker's acceptances and other securities it offers for sale.
   c) Be willing to trade securities on the City's portfolio.
   d) Be capable of providing market analysis, economic projections, newsletters.
   e) Provide market education on new investment products, security spread relationships, graphs, etc.

8. The firm must be willing to provide annual financial statements.

9. If requested, the firm must be willing to provide a list of local government clients or other references, particularly those client relationships established within the State of California.

10. The City is prohibited from the establishment of a broker/dealer account for the purpose of holding the City's securities. All securities must be subject to delivery at the City's custodial bank.

11. Without exception, all transactions are to be conducted on a "'delivery vs. payment" basis.

12. The broker/dealer shall be headquartered or have a branch office in California. The City will not conduct security transactions with any firm located out of state.

13. The broker/dealer must have been in operation for more than 5 years.

14. No business relationship shall be established with firms primarily engaged in the sale of "exotic" products. Exotic means "unusually high yields," no ready secondary market, "high price volatility" on the security.

15. The firm must be registered with the State of California's regulatory agency.

16. No broker/dealer or security firm shall be selected who has made a political contribution to the City Treasurer or any member of the City Council or Agency Board or to any candidate for these offices.

Broker/Dealer Questionnaire

Name of Firm:

Address:

Telephone No.:

	Primary representative	**Manager**
Name:		
Title:		
Telephone No:		

1. Are you a recognized primary dealer in Government securities?

   ( ) Yes ( ) No

2. If so, how long has your firm been a primary dealer?
   __________ years.

3. Are you a retail or institutional broker?

4. What was your firm's total volume in U. S. Government and agency securities trading last year?

   Firm-wide $_____________

   Your office $_____________

5. Which instruments are offered regularly by your trading desk?

   ( ) T-bills ( ) BA's (domestic)

   ( ) T-notes and bonds ( ) BA's (foreign)

   ( ) Agencies (specify) ( ) Commercial Paper

   FFCB, FHLB, FNMA_____________ ( ) Bank C. D.'s

FHLMC, SLMA, TVA, GNMA ( ) S & L C. D.'s

WORLD BANK

( ) Repurchase Agreements ( ) Medium Term Corporate Notes

( ) Reverse Repurchase Agreements ( ) Mutual Funds (eligible for public investment)

6. Identify all personnel who will be trading with or quoting securities to the City.

Name	Title	Phone

7. Please identify your most directly comparable City/Local Agency clients in our geographical area.

Entity	Contact Person	Phone	Client Since

8. Is there anything in your background in the government securities business that makes you stand-out above the rest? Why should the City of Morgan Hill deal with you?

9 Have any of your public sector clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of a particular instrument? If so, please explain.

10. Has any public sector client ever claimed in writing that your firm was responsible for investment losses? Explain.

11. Has your firm consistently complied with the Federal Reserve's capital adequacy guidelines? Include certified documentation of your capital adequacy as measured by Federal Reserve standards.

12. Please provide certified financial statements and other statements regarding your firm's capitalization.

13. Please include samples of research reports that your firm regularly supplies to public sector clients.

14. Are you a Broker instead of a Dealer (i.e., you DO NOT own positions of securities)?

15. What reports, transactions, confirmations and paper trail would the City receive?

16. What training information would you provide to our employees and investment officers?

17. How many and what percentage of your transactions failed last month? Last year?

18. What portfolio information do you require from clients?

--CERTIFICATION--

I hereby certify that I have personally read the City of Morgan Hill's Investment Policy and the California Government Codes pertaining to the investments of the City of Morgan Hill, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted by our firm on behalf of the City of Morgan Hill, considering the City's investment objectives, strategies and risk constraints. We pledge to exercise due diligence in informing the City Treasurer and staff of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to the above questionnaire.

NOTE: Completion of this questionnaire is only part of the City of Morgan Hill's Certification process and DOES NOT guarantee that the applicant will be approved to do business with the City.

SIGNED
(Account Representative)

SIGNED
(Countersigned by Company President or person in charge of government securities operations.)

DATED

CITY OF MORGAN HILL

FIRMS AUTHORIZED TO CONDUCT INVESTMENT TRANSACTIONS

SCHEDULE III

The City is authorized to conduct investment security transactions with the following investment firms and broker/dealers, many of which are designated by the Federal Reserve as primary government dealers. Security transactions with firms other than those appearing on this list are prohibited.

A. Firms designated by the Federal Reserve as Primary Government Dealers:

Bank of Nova Scotia, New York Agency
BMO Capital Markets Corp.
BNP Paribas Securities Corp.
Barclays Capital Inc.
Cantor Fitzgerald & Co.
Citigroup Global Markets Inc.
Credit Suisse Securities (USA) LLC
Daiwa Capital Markets America Inc.
Deutsche Bank Securities Inc.
Goldman, Sachs & Co.
HSBC Securities (USA) Inc.
Jefferies & Company, Inc.
J.P. Morgan Securities, LLC
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Mizuho Securities USA, Inc.
Morgan Stanley Smith Barney
Nomura Securities International, Inc.
RBC Capital Markets, LLC
RBS Securities Inc.
Societe Generale, New York Branch
TD Securities (USA) LLC
UBS Securities, LLC
Wells Fargo Securities, LLC

B. Other authorized firms:

D. A. Davidson and Company
Fundamental Capital Markets
Morgan Keegan & Company, Inc.
UnionBanc Investment Services

CITY OF MORGAN HILL

SCHEDULE IV

Authorized Investments Ranked by Authority and Degree of Risk

July 15, 2016

AUTHORIZED INVESTMENTS	DIVERSIFICATION	PURCHASE RESTRICTIONS
U.S. TREASURY BILLS & NOTES	**No Limit**	**No Limit**
DREYFUSS TREASURY CASH MANAGEMENT FUND	**No Limit**	**No Limit**
U.S. GOVERNMENT AGENCIES AND GOVERNMENT SPONSORED ENTERPRISES	**No Limit**	**No Limit**
LOCAL AGENCY INVESTMENT FUND	**No Limit**	**Maximum Set by Gov't Code**
TIME DEPOSITS	**Max 5% of portfolio**	**Max $2 million per institution Collateral = 110% to 150%**
MONEY MARKET MUTUAL FUNDS	**Max 20% of portfolio**	**No Limit**
REPURCHASE AGREEMENTS	**Not Authorized**	**Not Authorized**
BANKERS' ACCEPTANCES	**Not Authorized**	**Not Authorized**
COMMERCIAL PAPER	**Not Authorized**	**Not Authorized**
MEDIUM-TERM CORPORATE NOTES	**Not Authorized**	**Not Authorized**
NEGOTIABLE CD'S	**Not Authorized**	**Not Authorized**
REVERSE REPURCHASE AGREEMENTS	**Not Authorized**	**Not Authorized**
ASSET BACKED SECURITIES	**Not Authorized**	**Not Authorized**
STATE & LOCAL INDEBTEDNESS	**Not Authorized**	**Not Authorized**

GLOSSARY

AGENCY: Debt issued by an agency of the federal government that is explicitly guaranteed by the full faith and credit of the United States government. The Government National Mortgage Association (GNMA or Ginnie Mae), is an example of an agency issuer.

ASKED: The price at which securities are offered. (The price at which a firm will sell a security to an investor.)

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

BASIS POINT: One one-hundredth of a percent (i.e., 0.01%).

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.)

BROKER: A broker brings buyers and sellers together for a commission. A broker does not take a position.

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

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

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

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

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

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

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

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (e.g., U.S. Treasury Bills).

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FANNIE MAE (FNMA): FNMA was chartered under the Federal National Mortgage Association Act in 1938. The corporation's purpose is to purchase and securitize mortgages in order to ensure that funds are consistently available to the institutions that lend money to home buyers. It is the largest single provider of residential mortgage funds in the United States. On September 7, 2008, Fannie Mae was placed into conservatorship of the FHFA. 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 CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions (e.g. S&L's, Small business firms, students, farmers, farm cooperatives, and exporters).

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

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

FEDERAL INSTRUMENTALITY SECURITY: Debt issued by a government sponsored enterprise that carries an implicit guarantee of the United States government. Examples of instrumentality issuers include the Federal National Mortgage Association (FNMA or Fannie Mae), the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), the Federal Home Loan Banks (FHLB), and the Federal Farm Credit Bank (FFCB).

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 are member of the system.

GINNIE MAE (GNMA): GNMA was created by the United States Federal Government through a 1968 partition of the Federal National Mortgage Association to provide guarantees on mortgage-backed securities (MBS) backed by federally insured or guaranteed loans. Ginnie Mae securities are the only MBS that are backed by the full faith and credit of by the United States government.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL: A local government investment pool is an investment option offered to public entities for the aggregate investment of public funds from political subdivisions. The funds are placed in the custody of the manager, frequently a State Treasurer, for investment and reinvestment. These pools are investments tools that offer safety with a competitive yield and their managers are vested with a public trust that the pool will maintain liquidity, diversity, and follow the investment pool's guidelines.

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

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

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

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.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker/dealers, banks and a few unregulated firms.

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

RATE OF RETURN: The 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.

REPURCHASE AGREEMENT (RP or REPO): a holder of securities sells these securities to an investor with an agreement to purchase them at a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

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

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

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

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

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: Intermediate-term coupon bearing U.S. Treasury securities having initial maturities of from one year to ten years.

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.