CITY COUNCIL OF THE CITY OF ATWATER

RESOLUTION NO. 3399-23

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ATWATER APPROVING THE STATEMENT OF INVESTMENT POLICY FOR THE 2023-2024 FISCAL YEAR AND DELEGATING AUTHORITY TO THE CITY TREASURER TO INVEST FUNDS IN ACCORDANCE WITH THE STATEMENT OF INVESTMENT POLICY

WHEREAS, the City Council has reviewed a proposed annual Statement of Investment Policy providing guidelines for the investment of City funds pursuant to Government Code Sections 53600 *et seq*.; and

WHEREAS, consistent with Government Code Section 53607, the City Council may annually delegate authority to the City Treasurer to make investments on behalf of the City.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Atwater that the Statement of Investment Policy attached as **Exhibit "A"** is hereby approved.

BE IT FURTHER RESOLVED, that the City Council does hereby delegate authority to the City Treasurer to invest funds in accordance with the City's Statement of Investment Policy for the 2023-2024 fiscal year.

The foregoing resolution is hereby adopted this 12th day of June 2023.

AYES: **Cale, Ambriz, Raymond, Button, Nelson**
NOES: **None**
ABSENT: **None**

APPROVED:

MIKE NELSON, MAYOR

ATTEST:

KORY J. BILLINGS, CITY CLERK

Exhibit A

CITY OF ATWATER
STATEMENT OF INVESTMENT POLICY
Fiscal Year 2023-2024

1. Purpose

This statement is intended to provide a guideline for the prudent investment of operating funds and restricted monies and to outline a policy for maximizing the efficiency of the cash management system for the City of Atwater. Ultimate investment goals include the enhancement of economic status and the protection of pooled cash investments. This investment policy was endorsed and adopted by the City Council of the City of Atwater, is effective as of the 27th day of June, 2022, and replaces any previous version.

2. Policy

It is the policy of the City of Atwater to invest public funds in a manner which will provide maximum security, meet the daily cash flow demands of the City, and provide highest investment return while conforming to all California laws set forth in the State Government Code, Sections 53600 *et seq.,* and local statutes governing the investment of public funds.

3. Scope

This Investment Policy applies to all funds and investment activities under the direct authority of the City of Atwater, including that of the Successor Agency to the Atwater Redevelopment Agency. This policy does not cover any funds held by fiscal agents in connection with the issuance of any debt by the City. Such funds shall be invested in accordance with the bond documents and trust indentures.

Pooling of funds: Except for cash in certain restricted and special funds, the Agency will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

4. Prudence

Pursuant to California Government Code , Section 53600.3, all persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the prudent investor standard: "…all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard." When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. Deviations from expectations of a security's credit or market risk should be reported to the governing body in a timely fashion and appropriate action should be taken to control adverse developments.

5. Objective

The primary objectives in priority order, of the City of Atwater's investment activities shall be:

5.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the City of Atwater shall be undertaken in a manner that seeks to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. The City may elect to sell a security prior to its 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 or the City's risk preferences.

5.2 Liquidity: The City of Atwater's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

5.3 Return on Investment: The City of Atwater's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

6. Risk Tolerance

The City Council of the City of Atwater recognizes that investment risks can result from issuer default, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a method to control risk. Investment managers are expected to display prudence in the selection of securities, as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. The City Treasurer shall, concurrent with the annual review and approval of the City's Statement of Investment Policy, periodically recommend to the City Council guidelines and strategies to control risks of default, market price changes and liquidity.

7. Delegation of Authority

Management responsibility for the investment program is the responsibility of the City Council unless delegated by City Council action to the City Treasurer. Investment of City of Atwater funds shall be conducted within the constraints of this Investment Policy. The conduct of the City's day-to-day banking and investment activities shall be the responsibility of the Finance Director, Finance Operations Manager and/or City Manager of the City of Atwater. The Finance Director, Finance Operations Manager and/or City Manager must conform to the signature requirements on all City accounts and cannot conduct banking and investing business without the proper signatures.

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

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

8. 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 officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business within the jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Atwater's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City's, particularly with regard to the time of purchases and sales.

9. Authorized Financial Dealers and Institutions

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

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

In accordance with Gov. Code Section 53601.5, the City is permitted to purchase investments from the following institutions:

- Institutions licensed by the state as a broker-dealer.
- Institutions that are members of a federally regulated securities exchange.
- A brokerage firm designated as a primary government dealer by the Federal Reserve bank.
- Nationally or state-chartered banks.
- A State Association or a Federal Association
- Direct issuers of securities eligible for purchase.

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

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

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

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

10. <u>Authorized Investments</u>

The City is governed by the California Government Code Sections 53600 et seq. Authorized investments of the City are detailed in Exhibit "A" which is made part of this investment policy.

11. <u>Investment Pools / Mutual Funds</u>

The Agency shall conduct a thorough investigation of any pool or mutual fund prior to making an investment, and on a continual basis thereafter. The Treasurer shall develop a questionnaire which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

12. <u>Collateralization</u>

Collateralization will be required as indicated in Exhibit "A". Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. The right of collateral substitution may be granted.

13. <u>Safekeeping and Custody</u>

All securities owned by the City, shall be held in safekeeping by the City's custodian bank or a third party bank trust department, acting as agent for the City under the terms of a custody or trustee agreement executed by the bank and by the City. A monthly report will be received by the City from the custodian or third party bank trust department listing all securities held in safekeeping with current market data and other information. All securities will be received and delivered using standard delivery-versus-payment (DVP) procedures. The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) mutual funds and money market mutual funds, since these securities are not deliverable.

14. Risk Management and Diversification

MITIGATING CREDIT RISK IN THE PORTFOLIO

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

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

MITIGATING MARKET RISK IN THE PORTFOLIO

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

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

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

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

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15. <u>Maximum Maturities</u>

Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the settlement date (See exceptions indicated in Exhibit "A").

16. <u>Internal Control</u>

The Treasurer shall establish a system of written internal controls which shall be reviewed by an independent auditor. This review will provide internal control by assuring compliance with policies and procedures. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the city. Controls deemed most important include: control of collusion, separation of duties, separation of transaction authority from accounting and recordkeeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized investment officials, documentation of transactions and strategies, and code of ethics standards.'

17. <u>Performance Standards</u>

The investment portfolio shall be designed to attain a market average rate of return through budgetary and economic cycles, taking into account the investment risk constraints and cash flow needs. The specific investment performance objective for the portfolio shall be to earn a total rate of return over a market cycle which is approximately equal to a market benchmark index. The current benchmark index for the portfolio is the ICE BofA 1-5 Yr US Treasury & Agency Index.

18. <u>Reporting</u>

The City Treasurer shall submit a monthly investment report to the City Council. This report will include all required elements of the monthly report as prescribed in California Government Code

Section 53646. Pursuant to the adopted Investment Policy for the City of Atwater, this monthly shall include:

1. The type of investment, name of issuer, date of investment, date of maturity, rate of interest, asking price and par and dollar amount invested on all securities, investments, monies and/or deposits.

2. The weighted average maturity of the portfolio.

3. Transactions for the period

4. A description of the funds, investments and programs (including lending programs) managed by contracted parties (i.e. LAIF, investment pools, outside money managers and securities lending agents)

5. The market value as of the date of the report and the source of the valuation.

6. A statement of compliance with the Investment Policy or, if not in compliance, a statement of non-compliance and the manner in which the portfolio is not in compliance.

7. A statement of compliance with California Government Code Section 53646 from the City Treasurer certifying that sufficient investment liquidity and anticipated revenues are available to meet the City's budgeted expenditure requirement for the next six (6) months or an explanation as to why sufficient money shall, or may, not be available

19. Review of the Investment Policy

The City of Atwater's Statement of Investment Policy shall be reviewed and adopted at least annually within 120 days of the end of the fiscal year to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends by City Council resolution. Any modifications made thereto must be approved by the City Council.

20. External Auditor

As a part of each year's financial audit of the City of Atwater, the external auditors shall review the Statement of Investment Policy and shall confirm that the City's investments are in compliance with that policy. Any issues noted will be reported to the City Council.

CITY OF ATWATER
STATEMENT OF INVESTMENT POLICY
Fiscal Year 2023-2024

ALLOWABLE INVESTMENTS AND ADDITIONAL INVESTMENT GUIDELINES

A. INVESTMENTS- Within the investments permitted by the Code, the Agency seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. Percentage holding limits listed in this section apply at the time the security is purchased.

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

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

1. U.S. Treasury Securities (bills, notes and bonds) are sold to finance gaps between the federal government's receipts and expenditures.

California Government Code Section 53601 Requirement: No limit specified:

City of Atwater Limitation:

1) Maximum maturity - five years
2) Maximum par value total size - None
3) Maximum par value per issue- None
4) Credit- Full faith and credit of the Federal Government

2. U.S. Agency & Government Sponsored Enterprise Securities are not direct obligations of the United States but rather are direct obligations of agencies of the federal government or government-sponsored enterprises. Securities issued by U.S. government agencies are backed by the full faith and credit of the U.S. government. They include the following agencies:

- Government National Mortgage Association (GNMA)
- Export-Import Bank (EXIMBANK)
- Small Business Administration (SBAs)
- Farmers Home Administration (FHA)
- General Services Administration (GSA)
- Maritime Administration

The federal government has sponsored the creation of, or the financial support of several corporations, also known as government-sponsored enterprises. None of these organizations carry the federal government guarantee.
They include the following agencies:

- Federal National Mortgage Association (FNMA)
- Federal Farm Credit Bank (FFCB)

-Federal Home Loan Bank (FHLB)
-Federal Home Loan Mortgage Corporation (FHLMC)
-Tennessee Valley Authority (TVA)

California Government Code Section 53601 Requirement: No limit specified.

City of Atwater Limitation:

1) Maximum maturity- five years
2) Maximum par value total size- no limitation
3) Maximum par value per issue-no limitation
4) The maximum percent of callable agency securities in the portfolio will be 20%.
5) Credit-Despite having no statutory limitation concerning this category, prudent investment practice necessitates constant analysis of the issuing agency. Although these issues have either the implicit or explicit guarantee of the federal government, market perception often limits the liquidity of these issues.

3. Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency, or by a department, board, agency or authority of the state or any local agency.

California Government Code Section 53601 Requirement: No limit specified.

City of Atwater Limitation:

1) Maximum maturity- five years
2) Maximum par value total size- 30% of portfolio
3) Maximum par value per issue-5%
4) Credit- The Securities are rated in a rating category of "A" or its equivalent or better by at least one nationally recognized statistical rating organization ("NRSRO")

4. Obligations (Municipal Securities) of any of the other 49 states in addition to California, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency, or by a department, board, agency or authority of the state or any local agency.

California Government Code Section 53601 Requirement: No limit specified.

City of Atwater Limitation:

1) Maximum maturity- five years
2) Maximum par value total size- 30% of portfolio
3) Maximum par value per issue-5%
4) Credit- The Securities are rated in a rating category of "A" or its equivalent or better by at least one nationally recognized statistical rating organization ("NRSRO")

5. Bankers Acceptances are typically created from a letter of credit issued in a foreign trade transaction and are time drafts drawn on and accepted by a bank to pay a specified amount of money on a specified date.

California Government Code Section 53601 Requirement:

1) Purchases may not exceed 180 days.
2) Purchases are restricted to 40% of the agency's surplus money.
3) No more than 30% of the City's surplus money may be invested in the bankers' acceptances of any one commercial bank.
4) Include only those that are eligible for discounting with the Federal Reserve System.

City of Atwater Limitation:

1) Maximum maturity – 180 days
2) Maximum par value size 30% of portfolio
3) Maximum par value per institution - 5%
4) Credit - financial institutions that shall only include banks that have short-term credit ratings of A-1, P-1 or equivalent ratings from other recognized rating services.

6. Certificates of Deposit

a. Certificate of Deposit (Time Deposit) is a time deposit in a financial institution documented by a certificate that bears a specified dollar amount of the deposit, a specified maturity date and a specified interest rate.

California Government Code Section 53635.8 Requirement: No limit specified.

City of Atwater Limitation:

1) Maximum maturity - 2 years
2) Maximum par value total size-No restriction
3) Maximum par value per institution- $500,000
4) Credit - from City authorized financial institutions. Collateralization must comply with statutory regulations.
5) Must be located in the State of California

b. Negotiable Certificates of Deposit are issued by nationally or state-chartered banks, savings associations or federal associations (as defined by Section 5102 of the Financial Code), state or federal credit unions, or federally or state licensed branches of foreign banks and are traditionally traded in lots of at least $1,000,000.

California Government Code Section 53601 Requirement: Shall not exceed the net worth of the institution.

City of Atwater Limitation:

1) Maximum Maturity- 2 years
2) Maximum par value total size - 30%
3) Maximum par value per institution - $1,000,000

4) Credit - Must be rated 'A' or higher by a nationally recognized statistical-rating organization.

7. Commercial Paper are short-term unsecured promissory notes issued by various economic entities in the open market to finance certain short-term credit needs.

<u>California Government Code Section 53601 Requirement</u>:

1) Prime quality of the highest ranking or of the highest letter and numerical rating as provided for by nationally recognized statistical-rating organization.
2) Issuing corporation must be organized and operating within the United States.
3) Issuing corporation must have total assets in excess of five hundred million dollars ($500,000,000). .
4) Issuing corporation must have an "A" or higher rating by a nationally recognized statistical-rating organization for the issuer's debt, other than commercial paper.
5) Purchases may not exceed 270 days maturity.
6) Purchases may not represent more than 10% of the outstanding paper of an issuing corporation.
7) Purchases may not exceed 25% of the agency's surplus money.

<u>City of Atwater Limitation</u>:

1) Maximum maturity- 270 days
2) Maximum par value size 25% of portfolio
3) Maximum par value per name- 10% per issuer regardless of sector.
4) Credit- CA Government Code Section 53601 requirements including commercial paper rated "A-1" or higher, or the equivalent, by a nationally recognized statistical ratings organization.

8. Medium Term Notes: The issuer is a corporation organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

<u>California Government Code Section 53601 Requirement:</u>

1) Maximum of five years maturity
2) Shall be rating category of 'A' or better by a nationally recognized statistical ratings organization.
3) May not exceed 30% of surplus money

<u>City of Atwater Limitation</u>:

1) Maximum of five years maturity
2) Shall be rating category of 'A' or better by a nationally recognized statistical ratings organization
3) Maximum par value per issuer- 5%
4) Credit – from City authorized institutions that shall only include institutions rated in a rating category of 'A' or higher by a nationally recognized statistical-rating organization. Any downgrading of these issues after purchase shall be reported to the Council.

ALLOWABLE INVESTMENTS AND ADDITIONAL INVESTMENT GUIDELINES

9. Local Agency Investment Fund (LAIF) was established by the State to enable treasurers to place funds in a pool for investments.

LAIF Limitations:
Maximum per California Government Code

City of Atwater Limitation:
1. LAIF limitation

10. Repurchase Agreements are not a security but a contractual agreement and consist of two simultaneous transactions: 1) First, an investor purchases securities (collateral) from a bank or dealer; 2) At the same time, the selling bank or dealer contractually agrees to repurchase the collateral security at the same price (plus interest) at some mutually agreed future date.

California Government Code Section 53601 Requirement:
1) Term of repurchase agreements shall be for one year or less.
2) All securities under a repurchase agreement shall be held by the agency's safekeeping agent.
3) The seller of repurchase securities shall not be entitled to substitute securities, except as authorized by the City. New or substitute securities should be reasonably identical to the original securities in terms of maturity, yield, quality and liquidity.

City of Atwater Limitation:
1) Maximum maturity – one year
2) Maximum par value total size - 10%
3) Maximum par value per institution - 10%
4) Credit-
   a) Securities shall be marked to market daily and shall be maintained at a value no lower than $102.
   b) Securities acceptable as collateral shall be U.S. Treasury obligations only.
   c) It should be covered by a master repurchase agreement.
5) Repurchase agreements shall only be made with primary dealers of the Federal Reserve Bank of New York.

11. **Asset Backed Securities (ABS)/ Mortgage Back Securities (MBS)** are securities whose value is derived from the collateral of a specified pool of underlying assets. The pools of underlying assets can include common payments from the loans and leases of credit cards, autos, equipment and mortgages

California Government Code Section 53601 (o) Requirement:
1) Maximum Maturity 5 years or less.
2) Shall be rated in a rating category of ‘AA’ or better by a nationally recognized statistical ratings organization.
3) Maximum par value total size- 20% of portfolio

City of Atwater Limitation:

1) Maximum maturity – 5 years or less
2) Maximum par value total size - 20%
3) Maximum par value per institution – 5%
4) Credit: In a rating category of 'AA' or better by a nationally recognized statistical ratings organization.
5) This section does not apply for issuers in section 2 (US agency and Government Securities.

12. **Supranationals Obligations:** Supranationals are international institutions that provide development financing, advisory services and/or other financial services to their member countries.

California Government Code Section 53601(q) Requirement:
1) Maximum of five years maturity or less
2) Shall be rated in a rating category of AA' or better by a nationally recognized statistical ratings organization.
3) May not exceed 30% of surplus money

City of Atwater Limitation:
1) Maximum of five years maturity or less
2) Shall be rated in a rating category of 'AA' or better by a nationally recognized statistical ratings organization
3) Maximum value not to exceed 30% or portfolio value
4) No more than 10% of the portfolio may be invested in any single issuer.
5) Credit –Any downgrading of these issues after purchase shall be reported to the Council.

13. **Mutual Funds and Money Market Mutual Funds** that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that:

1. MUTUAL FUNDS that invest in the securities and obligations as authorized under California Government Code, Section 53601 (a) to (k) and (m) to (q) inclusive and that meet either of the following criteria:

   (i) Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
   (ii) Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California Government Code, Section 53601 and with assets under management in excess of $500 million.

- No more than 10% of the total portfolio may be invested in shares of any one mutual fund.

ALLOWABLE INVESTMENTS AND ADDITIONAL INVESTMENT GUIDELINES

2. MONEY MARKET MUTUAL FUNDS registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:

   (i) Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
   (ii) Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500 million.

California Government Code Section 53601(q) Requirement:

1) Maximum maturity: no limit specified
2. a) Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or b) Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California Government Code, Section 53601 and with assets under management in excess of $500 million.
3) May not exceed 20% of portfolio

City of Atwater Limitation:

1) Maximum maturity not specified
2 a) Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or b) Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California Government Code, Section 53601 and with assets under management in excess of $500 million.
3) No more than 20% of the total portfolio may be invested in these securities
4) Investment Limitations:
   - Mutual Funds: No more than 10% of the total portfolio may be invested in shares of any one mutual fund
   - Money Market Funds: No more than 20% of the total portfolio may be invested in shares of any one money market fund

CITY OF ATWATER
STATEMENT OF INVESTMENT POLICY
Fiscal Year 2023-2024

ALLOWABLE INVESTMENTS AND ADDITIONAL INVESTMENT GUIDELINES

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:

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.

PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not 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.

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.

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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, the issuer will likely call its current securities and reissue them at a lower rate of interest.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate.

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 BANK DEPOSIT. A bank deposit that is collateralized at least 100% (principal plus interest to maturity). The deposit is collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

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.

COLLATERALIZED TIME DEPOSIT. Time deposits that are collateralized at least 100% (principal plus interest to maturity). These instruments are collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

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

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.

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.

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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 security to changes interest rates.

Federal Deposit Insurance Corporation (FDIC). The Federal Deposit Insurance Corporation (FDIC) is an independent federal agency insuring deposits in U.S. banks and thrifts in the event of bank failures. The FDIC was created in 1933 to maintain public confidence and encourage stability in the financial system through the promotion of sound banking practices.

Federally Insured Time Deposit. A time deposit is an interest-bearing bank deposit account that has a specified date of maturity, such as a certificate of deposit (CD). These deposits are limited to funds insured in accordance with FDIC insurance deposit limits.

Leverage. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

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.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

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.

MATURITY. The final date upon which the principal of a security becomes due and payable. The investment's term or remaining maturity is measured from the settlement date to final maturity.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100-basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

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

MONEY MARKET MUTUAL FUND. A mutual fund that invests exclusively in short-term securities. Examples of investments in money market funds are certificates of deposit and U.S. Treasury securities. Money market funds attempt to keep their net asset values at $1 per share.

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 CERTIFICATE OF DEPOSIT (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).

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."

REPURCHASE AGREEMENT. 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.

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

SECURITIES AND EXCHANGE COMMISSION (SEC). The U.S. Securities and Exchange Commission (SEC) is an independent federal government agency responsible for protecting investors, maintaining fair and orderly functioning of securities markets and facilitating capital formation. It was created by Congress in 1934 as the first federal regulator of securities markets. The SEC promotes full public disclosure, protects investors against fraudulent and manipulative practices in the market, and monitors corporate takeover actions in the United States.

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SECURITIES AND EXCHANGE COMMISSION SEC) RULE 15c3-1. An SEC rule setting capital requirements for brokers and dealers. Under Rule 15c3-1, a broker or dealer must have sufficient liquidity in order to cover the most pressing obligations. This is defined as having a certain amount of liquidity as a percentage of the broker/dealer's total obligations. If the percentage falls below a certain point, the broker or dealer may not be allowed to take on new clients and may have restrictions placed on dealings with current client.

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.

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 ("T-BILL"). 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.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.