TO: North County Library Authority (NCLA) Commission

FROM: Marcie Scott, Liaison

DATE: February 25, 2019

SUBJECT: Financial Summary

Summary

The NCLA Board adopted the budget for FY 18-19 on May 14, 2018. The primary revenue source is the Library Parcel Tax. Interest earnings on funds invested in a professionally-managed investment portfolio are the other source of revenue, with earnings varied based on portfolio performance.

Expenditures to date are consistent with budget expectations, but may increase in this Fiscal Year as the Los Altos Library Redevelopment Project moves forward.

Operating Budget

Updated financial information will be provided by City Finance staff six weeks after the close of each quarter. The next update is scheduled for mid-May 2019, which will be distributed at the May 20th meeting. The Summary of Revenues and Expenditures is included as attachment 3a and lists additional information requested, to provide an overview of all financial information.

If the Commission decides to allocate additional resources to the Library Redevelopment Project in the near future, it may be prudent to modify the FY 18-19 budget.

Investment Performance

Currently, NCLA holds money in a cash account, LAIF account, and in the City's investment portfolio. NCLA funds are allocated as follows:

- Cash $740,479
- LAIF $310,333
- Investment in City portfolio $3,132,000

In September 2016 , $3,132,000 of NCLA funds were placed in the City of Los Altos investment portfolio. The City's portfolio is managed by professional investment firm PFM, but the custodian of funds is Union Bank. All investment decisions made by PFM are guided by the City of Los Altos Investment Policy and California Government Code Section 53601. The portfolio is invested primarily in bonds, consistent with requirements in these policies.

Since the Fall of 2016, the investment market has changed. Additionally, NCLA is determining how to proceed with the Los Altos Library Redevelopment Project. Timing is favorable to reassess the best approach for NCLA funds given these two factors.

A chart prepared by PFM, attachment 3b, demonstrates the performance of LAIF versus the investment portfolio. The LAIF yield has been lagging behind the portfolio up until approximately April of 2018. As the interest rate market has changed, LAIF has performed more favorably than the bond-focused portfolio over the last few quarters.

No specific penalty would be assessed for a withdrawal of NCLA funds from the City's portfolio. The annualized return for the portfolio for the general period of NCLA investment, is approximately 0.98%. Should the Commission decide to make a change in allocation of NCLA funds, several options exist, including moving funds back into LAIF, or investing in a Joint Powers Authority investment known as the California Asset Management Program (CAMP).

It is recommended the Commission meet with the PFM representative at a future meeting to discuss the portfolio performance and projections for future market conditions, as well as timing and options should the Commission wish to make a change in their allocation of funds.

Attachments:

(a) Summary of Revenues and Expenditures
(b) Chart of Portfolio Performance prepared by PFM
(c) City of Los Altos Investment Policy

NORTH COUNTY LIBRARY AUTH FUND
CITY OF LOS ALTOS
Summary of Revenues and Expenditures
7/1/2018 - 12/31/2018

Item 3a
2/25/19

		AS of 12/31/18
REVENUES		
	Taxes & Special Assessments	-
	Interest	13,803.95
	Unrealized Gain(Loss)	(468.49)
	TOTAL REVENUES	**13,335.46**
EXPENDITURES		
	Salaries & Wages	-
	Administrative Costs	38,650.89
	Book Costs	-
	TOTAL EXPENDITURES	**38,650.89**
NET CHANGE		**(25,315.43)**

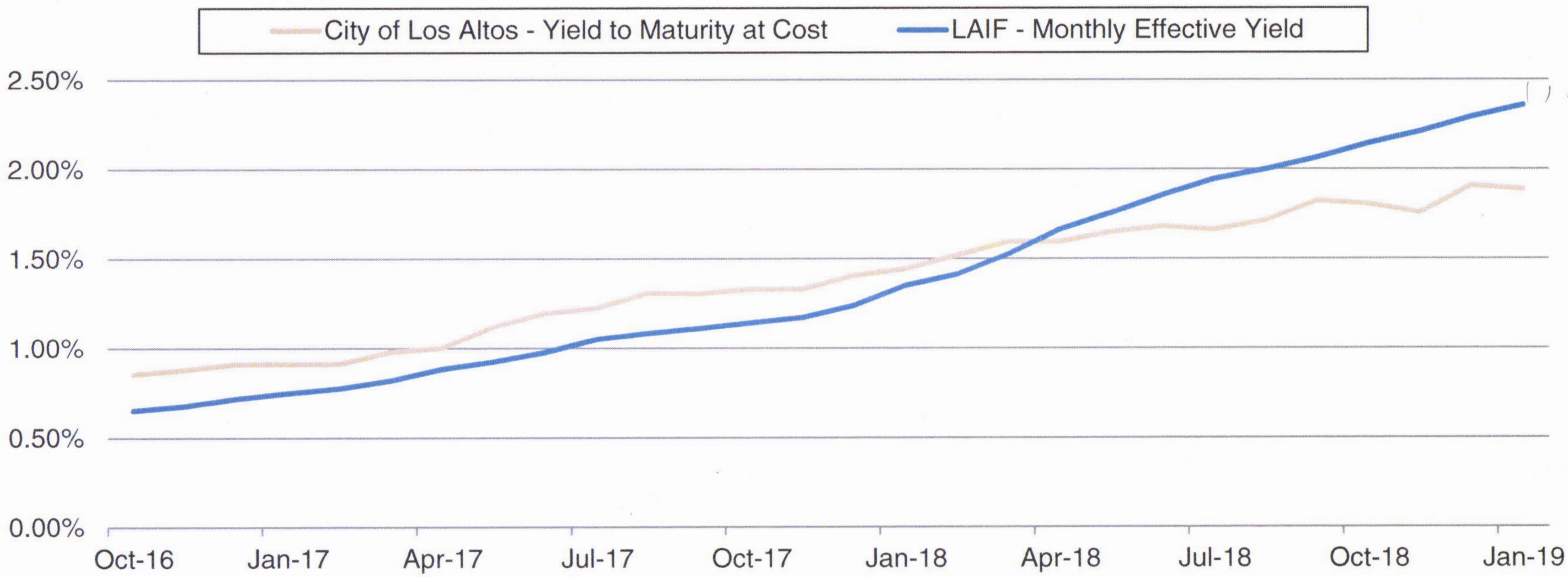
Status of Investment Accounts:

	Cash	740,479
	LAIF	310,333
	PFM Investment Fund	3,132,000

Pending Unclaimed Funds:	30,000

Portfolio Performance

	Duration (1/31/19)	Annualized Return (10/1/16 – 1/31/2019)
City of Los Altos	1.74	0.98%
ICE BofAML 1 – 3 Year U.S. Treasury Index	*1.79*	*0.79%*



Source: California State Treasurer, www.treasurer.ca.gov/pmia-laif, monthly effective yield, ICE BofAML Indices as of 1/31/2019.

Item 3c

CONSENT CALENDAR

Agenda Item # 5

AGENDA REPORT SUMMARY

Meeting Date: June 26, 2018

Subject: Investment Policy Update

Prepared by: Sharif Etman, Administrative Services Director
Approved by: Chris Jordan, City Manager

Attachment(s):
1. Investment Policy (with track changes to highlight edits)

Initiated by:
City Council, Staff and the Financial Commission

Previous Council Consideration:
October 25, 2016

Fiscal Impact:
None

Environmental Review:
Not applicable

Policy Question(s) for Council Consideration:
- Does the Council wish to adopt the recommended investment strategies contained within the revised Investment Policy?

Summary:
- Revised investment strategies have been recommended by the Financial Commission following direction from Council to analyze said strategies.

Staff Recommendation:
Move to adopt the revised Investment Policy

Subject: Investment Policy Update

Purpose
To consider the revised Investment Policy.

Background
The City's Investment Policy sets forth guidelines that ensure the City's funds are invested in compliance with State Law and in a prudent manner. The Policy is reviewed on an annual basis.

Discussion/Analysis
The Investment Policy is reviewed on an annual basis by the Financial Commission. The last recommended change to the policy was approved in October of 2016.

The Financial Commission is recommending minor changes to the Investment Policy after discussion with PFM Asset Management (PFM) for 2018. The recommended changes to the Investment Policy represent a more diverse, while still fiscally prudent, approach to investing the City's funds. Changes recommended to the October 2016 version of the Investment Policy include:

- Municipal Obligations – further defining the credit rating allowed
- Negotiable Certificate of Deposit – further defining the credit rating allowed
- Corporate Medium-Term Notes – Increasing City policy limitation from four years to five years; further defining the credit rating allowed
- Commercial Paper – Increasing the number of days from 180 to 270 days; increasing the percentage allowed in the portfolio from 15% to 25%; updating the credit rating allowed

All the recommended changes are within California Code Limitations.

Options

1) Adopt the revised Investment Policy

Advantages: Allows the City to invest its funds in a broader way to maximize the City's return on investment, while still maintaining fiscally prudent investments

Disadvantages: None identified

2) Provide direction on additional changes / edits to the Investment Policy

Advantages: Additional changes in allowable investments could result in greater return on the City's investments

Disadvantages: These investments could result in greater risk of loss of City funds

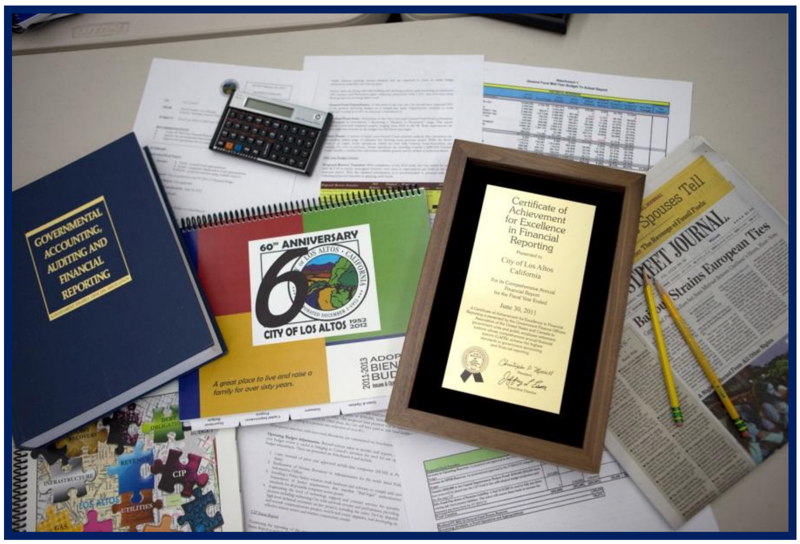
3) Do not adopt the revised Investment Policy

Advantages: None identified

Disadvantages: The City's investments will remain governed by the 2016 Investment Policy which was determined to be outdated and was recommended by the Financial Commission for changes.

Recommendation

The Financial Commission and staff recommend Option 1.



CITY OF LOS ALTOS INVESTMENT POLICY

JUNE 2018~~OCTOBER 2016~~

ATTACHMENT 1

A. INTRODUCTION

This document sets forth policies designed to ensure that the City's public funds are invested prudently, efficiently, and in compliance with legal requirements. It was developed in accordance with California Government Code Sections 53600 *et seq.* and is reviewed by the Financial Commission and adopted by City Council each fiscal year.

This document discusses the most important elements of investment management in one comprehensive centralized format and is organized into the following areas of discussion:

A. Introduction
B. Scope
C. Prudent Investor Standard
D. Objectives
E. Guiding Principles
F. Delegation of Authority
G. Financial Commission Oversight
H. Ethics and Conflict of Interest
I. Safekeeping and Custody
J. Reporting Requirements
K. Maximum Maturity
L. Permitted Investment Instruments
M. Prohibited Investment Instruments
N. Glossary of Investment Terms

B. SCOPE

This policy covers all public funds under the direction of the Administrative Services/Finance Director within the following fund types:

- Governmental Funds
- Proprietary Funds
- Fiduciary Funds

The investment of bond proceeds is governed separately by the provisions of the relevant bond documents.

C. PRUDENT INVESTOR STANDARD

All persons involved in investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing the City's investment portfolio shall act with the 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 City, 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 City.

D. OBJECTIVES

The primary objectives, in order or their priority, of the City's investment program shall be:

Safety - The preservation of the principal of the City's overall investment portfolio is the foremost objective of the investment program.

Liquidity - The City's investment portfolio will remain sufficiently liquid to meet its cash flow requirements.

Return on Investment - The City's investment portfolio shall be designed with the objective of attaining a reasonable and prudent rate of return consistent with the risk constraints and liquidity demands imposed by its safety objective and cash flow requirements.

E. GUIDING PRINCIPLES

The following guiding principles are important in the pursuit of such objectives:

Minimizing Liquidity, Credit and Market Risks: Investment decisions should minimize liquidity, credit or market risks in the following ways:

Liquidity Risk - The risk that the investment portfolio will not provide adequate cash liquidity for operations shall be mitigated by structuring the portfolio so that securities mature at the same time that major cash outflows occur, thus minimizing the need to sell securities prior to their scheduled maturity date unless market conditions present favorable repositioning opportunities.

Credit Risk - The risk of loss of principal associated with the failure of any one security issuer shall be mitigated by investing in only very safe highly-rated securities and prudently diversifying the investment portfolio to avoid concentrating investments in specific security types, maturity durations, or in individual financial institutions.

Market Risk - The risk of market value fluctuations arising from overall changes in the general level of interest rates shall be mitigated through maintaining prudent duration levels, staggering investment maturity dates evenly over a desired overall duration target and prohibiting the taking of short positions (selling securities that the City does not own) and interest rate sensitive derivative instruments. It is explicitly recognized herein, however, that in a diversified portfolio occasional measured losses are inevitable and must be considered within the context of the overall portfolio's structure and expected investment return, with the proviso that adequate diversification and credit analysis have been implemented.

Market Average Rate of Return: The investment portfolio shall be managed to attain a market average rate of return based upon a benchmark that is appropriate for a fund of like character and aims and commensurate with the portfolio’s current investment strategy.

Non-Speculative Approach: This policy specifically prohibits all speculative investment practices, including, but not limited to, those that seek to gain or profit through transactions of high and unusual risk, or that utilize securities whose price is dependent upon or derived from one or more underlying assets (Derivatives).

Professionalism and Public Trust: The City’s investment portfolio is subject to public review and evaluation and shall be designed and managed with the high degree of professionalism that is worthy of the public trust.

F. DELEGATION OF AUTHORITY

The management responsibility for the City’s investment program has been delegated to the Administrative Services/Finance Director. The Administrative Services/Finance Director shall monitor and review all investments for consistency with this policy, and may delegate investment decision-making and execution authority to investment advisors in accordance with an agreement as authorized by the City Council. The investment advisor shall follow and comply with this policy and all other written instructions provided by the City. The Administrative Services/Finance Director may, in writing, further delegate such investment authority to designated management staff in the Executive and/or Finance Department in the event of the Administrative Services/Finance Director’s absence or other unavailability. The Administrative Services/Finance Director shall prepare and file documents with all financial institutions with which the City conducts investment activities certifying the names of those persons authorized to effect transactions on behalf of the City.

G. FINANCIAL COMMISSION OVERSIGHT

The Financial Commission consists of citizen members appointed by the City Council. The Financial Commission shall meet periodically, at least quarterly, to review general investment strategies and monitor the results of the City’s investment portfolio in coordination with the Administrative Services/Finance Director and/or finance staff designee. The Financial Commission shall also review any proposed changes to this policy before they are submitted to the City Council for final adoption.

H. ETHICS AND CONFLICT OF INTEREST

All persons involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the City's investment program or which could impair their ability to make impartial decisions.

I. SAFEKEEPING AND CUSTODY

All investments of the City's investment portfolio shall have the City of Los Altos as the registered owner, and all interest and principal payments and withdrawals shall indicate the City of Los Altos as the payee.

All securities shall be safely kept with a qualified financial institution, contracted independently by the City as a third party. All securities shall be acquired by the safekeeping institution on a "delivery-vs.-payment" (DVP) basis. In other words, the security must be delivered before funds are released. The DVP basis for delivery applies also to the delivery and safekeeping of repurchase agreement collateral.

J. REPORTING REQUIREMENTS

The Finance Director will present to the City Council quarterly investment reports, which will present an overall summary of investment performance and include the following type of information:

- Description of investment instruments held
- Interest rate and yield to maturity
- Maturity dates
- Purchase price
- Par value
- Current market value as of the date of the report, including the source of such valuation
- Overall portfolio yield based on cost
- Total return (Quarterly)
- Benchmark comparisons
- Detailed transaction reports shall be made available upon request by any governing member or member of the public

K. MAXIMUM MATURITY

The City may not invest in a security with a maturity date that exceeds five years from the date of purchase.

L. PERMITTED INVESTMENT INSTRUMENTS

The California Government Code in section 53600 *et seq*. sets certain limits on the investment instruments, credit criteria, maximum maturity dates, concentration percentages and other conditions of eligibility in which a government agency's funds may be invested. However, this policy sets limits on the investment of the City's investment portfolio that are more restrictive than such California law. The California Code limits and the more restrictive limits applicable to this policy are listed and summarized in the attached **Exhibit A** (City of Los Altos Allowable Investments). The City's investment portfolio may be invested only in those instruments permitted in **Exhibit A.**

It is important to note that from time to time the City may be invested in a security whose rating is downgraded subsequent to the original date of purchase. The Finance Director, directly or indirectly through the delegation of authority to the investment advisor, shall monitor the status of security ratings. When the City uses the services of outside investment advisors and a rating of a prior-purchased security drops below the minimum allowed rating category for that given investment type, the investment advisor shall immediately notify the Finance Director and recommend a plan of action.

M. PROHIBITED INVESTMENT INSTRUMENTS

Investment of the City's investment portfolio in any of the following identified instruments is specifically prohibited:

- **Reverse Repurchase Agreements** - Differs from a Repurchase Agreement in the sense that a reverse repurchase agreement is one that sells security positions in return for cash with an agreement to repurchase the securities for an agreed upon price.
- **Derivatives** - Financial instruments whose values are based on or determined by another security, financial instrument or index, including instruments used for hedging.
- **California State and Local Agency Obligations** - 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. Nothing in this section shall be construed to exclude the City's participation in the Local Agency Investment Fund (LAIF) operated by the State of California Treasurer's Office.
- **Other State Obligations** - Registered debt obligations of any of the other 49 United States beyond California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority.
- **Prohibited Investments Cited in California Government Code Section 53601.6 including, but not limited to:**
  - Inverse Floaters
  - Range Notes
  - Mortgage Derivatives or other similar asset backed securities
  - Interest Only Strips
  - Zero Interest Coupon Securities

N. GLOSSARY OF INVESTMENT TERMS

Exhibit B contains a glossary of key investment terms that may be used in this policy.

Exhibit A

City of Los Altos Allowable Investments

Exhibit A

City of Los Altos Allowable Investments

Investment Instruments	Calif. Code Limitation	City Policy Limitation
Collateralized Bank Deposits	No term 100% of portfolio	No term 100% of portfolio
State of California - Local Agency Investment Fund (LAIF)	No term 100% of portfolio Max $65 million	No term 100% of portfolio Max $65 million
Money Market Mutual Funds (SEC Rule 2a7)	No term 20% of portfolio 10% per issuer	Overnight 20% of portfolio Major US owned Calif. institution 10% of portfolio per issuer
U.S. Treasuries	5 years 100% of portfolio	5 years 100% of portfolio
Federal Agencies (including, mortgage-backed securities, callable securities)	5 years 100% of portfolio	5 years 100% of portfolio 20% of portfolio per issuer 35% of portfolio in callables
Municipal Obligations (including notes issued by the State of California, California local agencies, and the other 49 states)	5 years 100% of portfolio	5 years 30% of portfolio Credit rating ~~of no less than the A~~ category of "A" or its equivalent or higher by a nationally recognized statistical-rating organization (NRSRO) Other[1]
Bank /Time Certificates of Deposit	5 years 100% of portfolio	3 years 50% of portfolio 10% of portfolio per issuer Major US owned Calif. institution FDIC/NCUA Insured and/or collateralized in Treasuries and Agencies
Negotiable Certificates of Deposit	5 years 30% of portfolio	3 years 30% of portfolio 3% of portfolio per issuer Credit rating ~~of no less than the A~~ category ~~(~~of "A" or ~~A-1 for short-term securities)~~its equivalent or higher by ~~any two nationally recognized statistical rating organizations (NRSROs)~~a NRSRO
Corporate Medium Term Notes	5 years 30% of portfolio	~~4~~5 years 30% of portfolio 3% of portfolio per issuer

[1]Municipal bonds must also be either (1) a general obligation bond whose principal and interest payments are secured by the full faith and credit of the issuer and supported by either the issuer's unlimited or limited taxing power, or (2) an essential service bond secured with revenue from a water, sewer, power or electric system.

Investment Instruments	Calif. Code Limitation	City Policy Limitation
	Credit rating of no less than A by any NRSRO	Credit rating ~~of no less than the A~~ category of "A" or its equivalent or higher by ~~any two NRSROs~~a NRSRO
Repurchase Agreements	1 year 100% of portfolio 102% Collateral	180 days 20% of portfolio 10% of portfolio per issuer 102% Collateral Treasuries/Agencies Major US owned Calif. financial institution
Bankers' Acceptances	180 days 40% of portfolio 30% per issuer	180 days 20% of portfolio 10% of portfolio per issuer Major US owned Calif. institution
Commercial Paper	270 days 25% of portfolio 10% per issuer	~~180~~270 days ~~15~~25% of portfolio 5% of portfolio per issuer Credit rating of no less than ~~A1/P1~~"A-1" or its equivalent or higher by an NRSRO.
Obligations issued by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank	5 years 30% of portfolio Credit rating of no less than AA by an NRSRO	5 years 10% of portfolio Credit rating of no less than AAA by an NRSRO
Asset-Backed Securities[2]	5 years 30% of portfolio Credit rating of no less than AA by an NRSRO	5 years 20% of portfolio Security shall be rated AAA by an NRSRO Issuer shall have a credit rating of no less than the A category by an NRSRO 3% of portfolio per issuer
Local Government Investment Pools	100% of portfolio Advisor requirements	Not permitted

[2] Asset-Backed Securities shall not include mortgage related products issued by commercial entities. Investments in asset-backed securities shall generally be limited to those in "senior" tranches.

Exhibit B
Glossary of Investment Terms

Exhibit B

Glossary of Investment Terms

Agency - See "Federal Agency."

Asset-Backed Securities (ABS) - Securities whose income payments and hence value is derived from and collateralized (or "backed") by a specified pool of underlying assets which are receivables. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can comprise common payments credit cards, auto loans, mortgage loans, and other types of assets. Interest and principal is paid to investors from borrowers who are paying down their debt.

Bankers' Acceptance (BA's) - A draft or bill of exchange drawn upon and accepted by a bank frequently used to finance the shipping of international goods. Used as a short-term credit instrument, bankers' acceptances are traded at a discount from face value as a money market instrument in the secondary market on the basis of the credit quality of the guaranteeing bank.

Benchmark - A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance, and duration of the actual portfolio's investments.

Certificate of Deposit (CD) - Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity). Can be as long as ten years to maturity, but most CDs purchased by public agencies are one year and under.

Collateral - Investment securities or other property that a borrower pledges to secure repayment of a loan, secure deposits of public monies, or provide security for a repurchase agreement.

Commercial Paper - Short-term unsecured promissory note issued by a company or financial institution that is issued at a discount and matures for par or face value. This instrument usually matures at a maximum maturity of 270 days and bears a short-term debt rating by one or more Nationally Recognized Statistical Rating Organization (NRSRO).

Corporate Medium Term Notes - A debt instrument issued by a corporation with a maturity of greater than one year and less than ten years. Used frequently to refer to corporate notes of medium maturity (five years and under).

Custody - Safekeeping services offered by a bank, financial institution or trust company, referred to as the "custodian." Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement and market values.

Delivery Versus Payment (DVP) - The settlement procedure in which securities are delivered versus payment of cash, but only after cash has been received. Most security transactions, including those through the Federal Reserve Securities Wire system and DTC, are done DVP as a protection for both the buyer and seller of securities.

Depository Trust Company (DTC) - A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of certificates. A member of the Federal Reserve System and owned mostly by the New York Stock Exchange, the Depository Trust Company uses computerized debit and credit entries. Most corporate securities, commercial paper, CDs, and BAs clear through DTC.

Derivative - A financial instrument whose value is based on or determined by another security, financial instrument, or index.

Diversification - Dividing investment funds among a variety of security types, maturities, industries, and issuers offering potentially independent returns.

Federal Agency - These are Federal government sponsored and/or owned entities created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets. The largest federal agencies are Fannie Mae, Freddie Mac, FHLB, FFCB, and TVA.

Federal Reserve System (the Fed) - The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Federal Reserve Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven member Board of Governors known as the "Federal Reserve Board" and led by its Chairman.

Federal Treasuries - A collective term used to describe debt instruments backed by the U.S. Government and issued through the U.S. Department of the Treasury that includes Treasury bills, Treasury notes, and Treasury bonds. Also a benchmark term used as a basis by which the yields of non-Treasury securities are compared (e.g., "trading at 50 basis points over Treasuries").

Fiduciary Funds - Term used when a governmental unit acts in a fiduciary capacity such as a trustee or agent. The government unit is responsible for handling the assets placed under its control.

Government Sponsored Enterprise (GSE) - A privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over Treasuries. Examples of GSEs include: FHLB, FHLMC, FNMA, and SLMA.

Governmental Funds - Term used in Government Accounting to apply to all funds except for the profit and loss funds (e.g., enterprise fund, internal service fund) and trust and agency funds. Examples of government funds are the general fund, special assessment fund, and capital projects fund. Governmental funds use the modified accrual accounting method.

Government Instrumentalities (Supranationals) – Entities formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds. Examples of supranational institutions include the European Investment Bank and the World Bank. Similarly to the government bonds, the bonds issued by these institutions are considered direct obligations of the issuing nations and have a high credit rating.

Index - A compilation of statistical data that tracks changes in the economy or in financial markets.

Interest-Only (IO) Strips - A security based solely on the interest payments from the bond. After the principal has been repaid, interest payments stop and the value of the security falls to nothing. Therefore, IOs are considered risky investments and are usually associated with mortgage-backed securities.

Inverse Floater - A floating rate security structured in such a way that it reacts inversely to the direction of interest rates. Considered risky as their value moves in the opposite direction of normal fixed income investments and whose interest rate can fall to zero.

Investment Advisor - A company that provides professional advice managing investment portfolios offers investment recommendations and/or research in exchange for a management fee.

Liquidity – This is a measure of the relative ease of converting an asset into cash without significant loss of value and the level of cash and near-cash items in a portfolio of assets. This term also describes the marketability of money market security correlating to the narrowness of the spread between bid and ask prices.

Local Agency Investment Fund (LAIF) - Special fund in the California State Treasurer's Office which local agencies may access to deposit funds for short-term investment and reinvestment.

Market Value - The fair market value of a security or commodity or the price at which a willing buyer and seller would pay for a security.

Maturity Date - Date on which principal payment of a financial obligation is due.

Money Market Mutual Fund (2a-7) - A type of mutual fund that invests solely in money market instruments, such as Treasury bills, commercial paper, bankers' acceptances, and repurchase agreements. Money market mutual funds are registered with the SEC under the Investment Company Act of 1940 and are subject "rule 2a-7" which significantly limits average maturity and credit quality of holdings.

Mortgage-Backed Securities (MBS) - Mortgage-backed securities represent an ownership interest in a pool of mortgage loans made by financial institutions, such as savings and loans, commercial banks, or mortgage companies, to finance the borrower's purchase of a home or other real estate. The majority of MBS are issued and/or guaranteed by GNMA, FNMA and FHLMC. There are a variety of MBS structures, some of which can be very risky and complicated. All MBS have reinvestment risk as actual principal and interest payments are dependent on the payment of the underlying mortgages which can be prepaid by mortgage holders to refinance at lower rates or simply because the underlying property was sold.

Mortgage Pass-Through Securities - A pool of residential mortgage loans with the monthly interest and principal distributed to investors on a pro-rata basis. Largest issuer is GNMA.

Municipal Note/Bond - Debt issued by a state or local government unit or public agency. The vast majority of municipals are exempt from state and federal income tax, although some non-qualified issues are taxable.

Mutual Fund - Portfolio of securities professionally managed by a registered investment company that issues shares to investors. Many different types of mutual funds exist (bond, equity, money market fund); all except money market funds operate on a variable net asset value (NAV).

NRSRO - "Nationally Recognized Statistical Rating Organization." An entity designated as a rating organization that the SEC has recognized as having a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of an NRSRO may be used for the regulatory purposes of rating. They include Moody's, Standard & Poor's, and Fitch among others.

Par Value - Face value, stated value or maturity value of a security.

Principal - Face value of a financial instrument on which interest accrues which may be less than par value if some principal has been repaid or retired. For a transaction, principal is par value as a factor of price and includes any premium or discount.

Proprietary Funds - In governmental accounting, one having profit and loss aspects; therefore it uses the *accrual* rather than modified accrual accounting method. The two types of proprietary funds are the Enterprise Fund and the Internal Service Fund.

Prudent Investor Standard - Standard that requires that 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. This standard is more stringent than the "prudent person" standard as it implies a level of knowledge commensurate with the responsibility at hand.

Range Note - A type of structured note that accrues interest daily at a set coupon rate that is tied to an index. Most range notes have two coupon levels; a higher accrual rate for the period the index is within a designated range, the lower accrual rate for the period that the index falls outside the designated range. This lower rate may be zero and may result in zero earnings.

Rate of Return - Amount of income received from an investment, expressed as a percentage of the amount invested.

Repurchase Agreement (Repo) - A short-term investment vehicle in which an investor agrees to buy securities from a counterparty and simultaneously agrees to resell the securities back to the counterparty at an agreed upon time and for an agreed upon price. The difference between the purchase price and the sale price represents interest earned on the agreement. In effect, it represents a collateralized loan to the investor, where the securities are the collateral. Can be DVP, where securities are delivered to the investor's custodial bank, or "tri-party" where the securities are delivered to a third-party intermediary. Any type of security can be used as "collateral," but only some types provide the investor with special bankruptcy protection under the law. Repos should be undertaken only when an appropriate approved banking master repurchase agreement is in place.

Reverse Repurchase Agreement (Reverse Repo) - This is a repo from the point of view of the original seller of securities. Used by dealers to finance their inventory of securities by essentially borrowing at short-term rates. Can also be used to leverage a portfolio and in this sense, can be considered risky if used improperly.

Safekeeping - Service offered for a fee, usually by financial institutions, for the holding of securities and other valuables. Safekeeping is a component of custody services.

Total Return - Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

Yield to Maturity (YTM) - Calculated return on an investment, assuming all cash flows from the security are reinvested at the same original yield. Can be higher or lower than the coupon rate depending on market rates and whether the security was purchased at a premium or discount. There are different conventions for calculating YTM for various types of securities.