

# City of Anaheim



## Statement of Investment Policy

Effective January 1, 2015

# INVESTMENT POLICY

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## **1.0 POLICY**

The purpose of this Investment Policy (Policy) is to establish cash management and investment guidelines for the City Treasurer, who is responsible for the administration of the City of Anaheim Investment Program. Each investment transaction and the entire portfolio must comply with the California Government Code, Sections 53600 and 53635 et seq. and this Policy. It is the policy of the City of Anaheim to meet the short and long-term cash flow demands of the City in a manner which will provide for the safety of principal and sufficient liquidity, while providing an investment return.

- 1.1 Government Code Section 53646 previously mandated that annual investment policies and quarterly reports be rendered to the legislative body. AB2853 amended the Government Code Section 53646 to remove the requirements; the rendering of these documents is permissive rather than mandated.
- 1.2 Although the Annual Investment Policy and Quarterly Reports are no longer required, we believe it prudent to continue to provide the legislative bodies with these documents. In addition, Government Code Section 53607 has not been repealed that requires an annual delegation of investment authority to the City Treasurer and the submission of reports that include investment transactions by month.

Consequently, the City Treasurer will annually render to the City Council a statement of investment policy. The policy shall be reviewed on an annual basis by the City Treasurer and the Budget, Investment and Technology Commission.

## **2.0 SCOPE**

This investment policy applies to all investment activities and financial assets of the City of Anaheim with the following exceptions:

1. Investments in the City's Defined Contribution Plans (Deferred Compensation)
  2. Investments in the City's Retiree Health Savings (RHS) Plans
  3. Investments of City Debt issues, such as Construction, Acquisition, Project, Debt Service and Reserve Funds
  4. Investments in the City's Defined Benefit Plan (Pension)
- 2.1 It is the City's policy to pool funds for investment purposes to provide efficiencies and economies of scale. Investing through a pooled account will provide for greater use of funds by allowing for a more efficient cash flow, a reduction in transaction costs, and a greater access to the market.

The General Pool represents funds of the City of Anaheim and its component units. The component units are legally separate entities from the City, but are so intertwined with the City that they are, in substance, the same as the City. The component units presently include the Housing Authority, the Successor Agency to the Redevelopment Agency, the Community Center Authority, the Anaheim Public

Financing Authority, the Anaheim Housing and Public Improvement Authority and the Anaheim Public Improvement Corporation. For purposes of this Policy, the City and its component units will be referred to collectively as the “City”. The funds are accounted for in the City of Anaheim’s Comprehensive Annual Financial Report and include, but are not limited, to the following:

- a) General Fund
- b) Special Revenue Fund
- c) Debt Service Funds
- c) Capital Project Funds
- d) Enterprise Funds
- e) Internal Service Funds
- e) Agency Funds
- f) Any new funds created by the City Council

2.3 The City’s General Pool will be referred to as the “Portfolio” throughout the remainder of this document. The City Treasurer and staff will observe, review and react to changing conditions that affect the Portfolio.

### **3.0 DELEGATION OF AUTHORITY**

- 3.1 Pursuant to the City of Anaheim Resolution No. 2000R-29 and the California Government Code Section 53607, the City Council hereby authorizes the City Treasurer to invest or reinvest the City’s funds, to sell or exchange securities so purchased, and to deposit securities for safekeeping in accordance with California Government Code Sections 53600, 16429.1 and 53684, et seq. as further limited by this Investment Policy.
- 3.2 The City Treasurer shall establish written procedures for the operation and management of the City’s investment program consistent with this investment policy, including appropriate written agreements with financial institutions.
- 3.3 No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer. The City Treasurer may delegate all, or a portion of his investment authority to subordinates pursuant to California Government Code Section 41006, or engage the services of one or more external investment managers to assist in the management of the City’s investment portfolio in accordance with the City’s Investment Policy. Such delegation and/or engagement by the City Treasurer shall not remove or abridge his investment responsibility.

- 3.4 Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program or which could impair their ability to make impartial investment decisions. All investment personnel shall comply with the reporting requirements of the Fair Political Practices Committee and include an annual filing of a Statement of Economic Interests.

#### **4.0 PRUDENCE AND STANDARD OF CARE**

- 4.1 California Government Code Section 53600.3 states that "...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."
- 4.2 Investment officials in the management of the City's funds shall use the "Prudent Investor" standard. Investment officers acting in accordance with this Policy, written portfolio guidelines and procedures, and exercising due diligence shall be relieved of personal responsibility for individual security's credit risk or market price changes, provided deviations from expectations are reported in the monthly and quarterly investment reports to the City Council, and appropriate action is taken to control adverse developments.
- 4.3 The City Treasurer, employees involved in the investment process, and the members of the Budget, Investment and Technology Commission shall refrain from all personal business activity that could conflict with the management of the investment program. All individuals involved with the investment of City funds, or review of investment transactions, will be required to report all gifts and income in accordance with California state law. When investing and managing City funds, the City Treasurer and employees shall act with the care, skill, prudence and diligence to meet the aims of the investment objectives listed in order in Section 5.0, Investment Objectives.

#### **5.0 INVESTMENT OBJECTIVES**

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

- A. **Safety:** Safety of principal is the foremost objective of the investment program. The City's investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
  - B. **Liquidity:** The City's investment portfolio will remain sufficiently liquid to meet all operating requirements that might be reasonably anticipated.
  - C. **Yield:** The City shall manage its funds to optimize the return on investments consistent with the two primary objectives of safety and liquidity. The rate of return on investment should be designed to attain a market rate of return through budgetary and economic cycles consistent with the risk limitations, prudent investment principles and cash flow requirements identified by the City's Investment Policy.
- 5.2 It is the City's policy to hold investments until market value equals or exceeds amortized cost or book value of the security. However, the City Treasurer may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the credit quality, liquidity, or rate of return of the portfolio in response to market conditions and/or the City's risk preferences.
- 5.3 In pursuing the safety of principal investment of City funds, the City's investment program will review and mitigate Credit risk and Market risk
- A. **Credit Risk -** Credit risk is defined as the risk of loss due to the failure of an issuer to redeem the outstanding debt at the stated maturity date. Within this concept, Credit risk also applies to the overall market perception of the financial strength and capacity of the issuer. Diversification of the investment portfolio by issuer, maturity date and amount invested will ensure that in the event of a failure of any one issuer, the event will not unduly harm or compromise the City's cash flow.
  - B. **Market or Interest Rate Risk –** Market or Interest Rate risk is the risk that the market value of investment securities in the portfolio may decline due to changes in general interest rates. Market rate risk can be mitigated by diversifying the investment of funds by maturity date and by investing funds to a specific cash requirement that would reduce the need to sell the security prior to maturity to meet immediate City cash flow needs.

## **6.0 INVESTMENT PROCEDURES**

The City Treasurer shall establish written investment procedures for the operation of the investment program consistent with this policy. The procedures include references to custodial safekeeping, master repurchase agreements, security lending agreements, wire transfer agreements, banking service contracts and collateral/depository agreements.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer.

## **7.0 INTERNAL CONTROLS**

- 7.1 The City Treasurer shall establish internal controls to provide reasonable assurance that the investment objectives of the City's Investment Policy are met and to ensure that the assets are protected from loss, theft, or misuse. The City Treasurer shall also be responsible for ensuring that all investment transactions comply with the City's Investment Policy and the California Government Code.
- 7.2 Cash balances are reconciled daily by non-investment employees and confirmed by the City's Finance Department.
- 7.3 Investment activity and holdings are verified monthly by the City's Finance Department and annually by the external auditor. These reviews provide internal control by assuring compliance with policies and procedures.

## **8.0 BUDGET, INVESTMENT AND TECHNOLOGY (BIT) COMMISSION**

A Budget, Investment and Technology (BIT) Commission has been established pursuant to Ordinance 6175. Members of the Commission are Council-appointed and are required to meet specific criteria as described in the Ordinance. The Commission was established to provide general oversight and act in an advisory capacity. The City Treasurer acts as liaison and staff support to the Commission. The Investment Policy is reviewed by the BIT Commission prior to remittance to the City Council.

## **9.0 CUSTODY AND SAFEKEEPING OF SECURITIES AND CITY FUNDS**

In accordance with California Government Code Section 53601 all securities owned by the City shall be held in safekeeping by the City's custodial bank or a third party bank trust department, acting as agent for the City under the terms of a custody agreement.

- 9.1 All securities will be received and delivered using standard Delivery-versus-Payment procedures which ensures that securities are deposited with the third party custodian prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts. Investments in the State Pool or money market mutual funds are not subject to delivery or third party safekeeping.
- 9.2 On a daily basis, investment trades are verified against the bank transactions and broker confirmation tickets to ensure accuracy. On a monthly basis, the custodial asset statement is reconciled with the month-end portfolio holdings. On an annual basis, the external auditor confirms investment holdings.

- 9.3 For investments in Repurchase Agreements, securities and collateral shall be purchased and maintained for the benefit of the City in the Trust Department or safekeeping department of a bank as established by a written third party safekeeping agreement between the City and the bank.
- 9.4 Funds deposited by the City shall be secured by a Depository in compliance with the requirements of the California Government Code, Section 53652. Such collateralization shall be designated and agreed to in writing.
- 9.5 Investment securities in bearer form such as, but not limited to, Negotiable Certificates of Deposit and Banker's Acceptances shall be held in a qualified safekeeping institution.

## **10.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

- 10.1 To minimize the risk to the City's overall cash and investment portfolio, prudence and due diligence as outlined below shall be exercised with respect to the selection of financial institutions in which the City's funds are deposited and invested.
  - A. In selecting Depositories pursuant to the Code, Section 53600, et seq., the credit worthiness, financial stability, and financial history of the institution, as well as the cost and scope of services and interest rates offered shall be considered. No funds will be deposited in an institution unless that institution has been evaluated by a nationally recognized independent rating service as satisfactory or better.
  - B. Deposits of \$250,000 or less which are insured pursuant to federal law by the Federal Deposit Insurance Corporation (FDIC), or the National Credit Union Administration (NCUA) may be excluded from the independent rating service evaluation requirement above and from the collateralization requirements of Section 9.3 of this Policy, at the City Treasurer's discretion.
- 10.2 In selecting external broker-dealers, past performance, stability, financial strength, reputation, area of expertise, and willingness and ability to provide the highest investment return at the lowest cost to the City within the parameters of this Investment Policy and the California Government Code shall be considered. External investment managers must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor Act of 1940.
- 10.3 Pursuant to California Government Code Section 53601.5, the City and its investment staff shall only purchase statutorily authorized investments either from the issuer, from a broker-dealer licensed by the state, as defined in Section 25004 of the Corporations Code, from a member of a federally regulated securities exchange, a national or state-chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank of New York.



- A. Investment staff will only purchase or sell securities from broker-dealers defined in section 10.3 of the City's Investment Policy and meet the minimum requirements of being registered and licensed by the National Association of Securities Dealers (NASD) and possess an active Series 7 license, an active Series 66 license (or Series 63), submission of a NASD form U4 (employment history) and a current NASD form U5 Disclosure Statement and have completed the City's broker-dealer questionnaire.
  - B. Investment staff will only use broker-dealers that have a minimum of three years continuous experience working for a primary dealer or five years continuous experience working for a non-primary dealer
- 10.4 The City Treasurer will maintain a list of financial institutions authorized to provide investment services to the City. An annual review of the financial condition and registrations of qualified bidders will be conducted by the City Treasurer. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the City invests.
- 10.5 However, if the interaction with the broker-dealer is limited to investment trades through an electronic trading platform, then the broker/dealer is exempt from completing a questionnaire.
- 10.6 Depositories, broker-dealers, who do business with the City, shall sign a Certification of Understanding (see Appendix B). All broker-dealers who do business with the City shall acknowledge receipt of the City's Investment Policy (see Appendix C).

## **11.0 AUTHORIZED INVESTMENTS**

The City of Anaheim is governed by the California Government Code, Sections 53600, 16429.1 and 53684, et seq.

- 11.1 The City of Anaheim's Investment Policy specifically **prohibits** the investment of any funds subject to this policy in the following securities:

Derivative securities, as defined in California Government Code Section 53601.6, as any security that derives its value from an underlying instrument, index, or formula, are prohibited. The derivative universe includes, but is not limited to, structured and range notes, securities that could result in zero interest accrual if held to maturity, variable rate, floating rate or inverse floating rate investments, and mortgage derived interest or principal only strips.

Anaheim's Investment Policy further restricts the permitted investments to those listed below.

City of Anaheim  
2015 Investment Policy

#	Type of Investment	Cal Gov Code % of Funds Permitted	Anaheim % Funds Authorized	Cal Gov Code Maximum Final Maturity	Anaheim Maximum Final Maturity
11.2	Bonds issued by the City or agency of the City	100 %	20 % 5% of a single issuer	5 Years	5 Years
11.3	United States Treasury notes, bonds, bills or certificates of indebtedness	100 %	100% 30 % of a single issue	5 Years	5 Years
11.4	Registered State (CA) warrants or treasury notes or bonds	100 %	20 % 5% of a single issuer	5 years	5 years
11.5	Other State of California Local Agency bonds, notes, warrants or other evidence of indebtedness	100 %	10 % 5% of a single issuer	5 years	5 years
11.6	Federal Agency or U.S. government sponsored enterprise (GSE) obligations	100 %	100 % 40 % of a single issuer 10% of a single issue	5 years	5 years
11.7	Banker's Acceptances,	40 % 30% of a single issuer	40 % 5% of a single issuer	180 days	180 days
11.8	Commercial Paper of "Prime" quality	25% 5% of a single issuer	25% 5% of a single issuer	270 days	270 days
11.9	Negotiable Certificates of Deposits	30 %	25 % 5% of a single issuer	5 years	360 days
11.10	Repurchase Agreements	100 %	30 %	1 year	1 year
11.11	Reverse Repurchase Agreements	20%*	20%*	92 days	90 days
11.12	Securities Lending	20%*	20%*	92 days	90 days
11.13	Medium Term Corporate Notes	30 %	30 % 5% of a single issuer	5 years	5 years
11.14	Shares of beneficial interest, Mutual Funds	20 % 10% of a single fund	20 % 10 % of a single fund	N / A	N / A

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#	Type of Investment	Cal Gov Code % of Funds Permitted	Anaheim % Funds Authorized	Cal Gov Code Maximum Final Maturity	Anaheim Maximum Final Maturity
11.15	State of California Local Agency Investment Fund	\$50 million per account	\$50 million per account	N / A	N / A
11.16	Time Certificates of Deposit (TCD)	100 %, but not more than equity of institution	20% 5% of a single issuer	5 years	1 year

\* Reverse Repurchase Agreements and Securities Lending Programs are limited to a maximum cumulative amount of 20% of portfolio funds

For investments in Bankers Acceptances, Commercial Paper, Negotiable Certificates of Deposit, and Medium Term Corporate Notes, the policy limitation of 5% per single issuer applies to the aggregate amount of funds invested in all category investments to a single issuer, including subsidiary companies.

The following is a summary of description and respective City Investment Policy limitations to each asset class or security:

- 11.2 Bonds issued by the City or agency of the City are defined as “including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.”
- 11.3 United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- 11.4 Registered State (CA) warrants, notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or a department, board, agency, or authority of the state.
- 11.5 Other State of California Local Agency bonds, notes, warrants or other evidence of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.
- 11.6 Federal Agency or U.S. government sponsored enterprise (GSE) obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

- 11.7 Banker's Acceptances (BA) otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. The City's Investment Policy restricts purchases to a maximum of 180 days to maturity, 40% of the book value of the portfolio funds and 5% of the book value of the portfolio funds in a single issuer.
- 11.8 Commercial Paper (CP) of "Prime" quality is defined as having the highest ranking or the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The issuer must meet the following:
1. Is organized and operating in the United States as a general corporation, has total assets in excess of five hundred million dollars (\$500,000,000), has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO;
  2. Is organized within the United States as a special purpose corporation, trust, or limited liability company, has programmable credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond, has commercial paper rated "A-1" or higher, or the equivalent, by a NRSRO.

The City's Investment Policy restricts purchases to a maximum maturity of 270 days, 25% of the book value of portfolio funds and 5% of the book value of the portfolio funds to a single issuer.

- 11.9 Negotiable Certificates of Deposits (NCD). Defined as issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state – licensed branch of a foreign bank. The City's Investment Policy restricts purchases to a maximum maturity of one year, 25% of the book value of the portfolio funds and 5% of the book value of the portfolio funds to a single issuer.
- 11.10 Repurchase Agreements. Investments are authorized when the term of the agreement does not exceed one year. The market value of securities underlying a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day. The City's Investment Policy restricts purchases to a maximum amount of 30% of the book value of the portfolio and further restricts purchases with a single broker/dealer to 20% of the book value of the portfolio funds, with a maximum maturity limit of one year.
- 11.11 Reverse Repurchase Agreements. Reverse repurchase agreements or securities lending agreements may be utilized only when the following condition is met:

The security to be sold on reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale; and the agreement does not exceed a term of 92 days, unless

the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security. Purchases in this category shall not exceed 20% of the cost value (base value) of the Portfolio and will be restricted to transactions with primary dealers.

#### 11.12 Securities Lending Program

The City Treasurer is authorized to engage contractors to perform securities lending activities or to permit custodian banks to subcontract for securities lending services. The securities lending agreement is an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

The base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.

In addition, the security to be sold on reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met:

1. The security to be sold on reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale.
2. The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20% of the base value of the portfolio.
3. The agreement does not exceed a term of 92 days.
4. Investments in reverse repurchase agreements and securities lending agreements will only be made with primary dealers of the Federal Reserve Bank of New York, or with a nationally or state-chartered bank that has or has had a significant banking relationship with the City.
5. "Significant banking relationship", is defined as follows:
  - a. Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, warrants, notes or other evidence of indebtedness
  - b. Financing of a local agency's activities
  - c. Acceptance of a local agency's securities or funds as deposits.

- 11.13. Medium Term Corporate Notes (MTN), defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this category shall be rated "A" or better by: Moody's, Standard & Poor's or Fitch, and shall not include other instruments authorized in Section 11.6 of the Policy (i.e. "Federal Agency" Medium Term Notes are classified as "Federal Agencies"). Purchases in this category shall not exceed five years to maturity nor 30% of the book value of the Portfolio. Purchases in a single issuer in this category shall not exceed 5% of the book value of the Portfolio.
- 11.14. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. The company shall have met either of the following criteria:
1. Attained the highest ranking or the highest letter and numerical rating provided by not less than two of the following: Moody's, Standard & Poor's or Fitch.
  2. 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 five hundred million dollars (\$500,000,000).

The purchase price of shares of beneficial interest, (mutual funds) purchased pursuant to this subdivision shall not include any commission that these companies may charge.

Investments in this category shall be restricted to money market mutual funds that seek to maintain a Net Asset Value of \$1. Money market mutual funds provide daily liquidity; therefore, there is no final stated maturity for this investment category. Investments in mutual funds shall be restricted to Funds that have the highest ranking or the highest letter and numerical rating provided by not less than two of the following nationally recognized statistical rating organizations: Moody's, Standard & Poor's or Fitch. Purchases in this category shall not exceed 20% of the book value of the Portfolio. Purchases in a single mutual fund shall not exceed 10% of the book value of the Portfolio.

- 11.15. State Pool - Local Agency Investment Fund. The City may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer under California Government Code Section 16429.1 for the benefit of local agencies.

LAIF provides daily liquidity; therefore, there is no final stated maturity for this investment category. Investments in LAIF shall not exceed \$50 million per account. The City currently has two accounts with the L.A.I.F. (the City and Redevelopment Agency) for a maximum amount of \$100 million.

11.16. Time certificates of deposit (TCD) in state or national banks, savings associations or federal associations, credit unions, or federally insured industrial loan companies. TCD's are technically deposits, not investments; however, they are listed under this section to clarify the City's authority to deposit funds in these instruments. TCD's shall be secured by collateral as required by California Government Code Sections 53652 and 53653. Purchases in this category shall not exceed one (1) year to maturity nor 20% of the book value of the Portfolio. Purchases in a single institution shall not exceed 5% of the book value of the Portfolio.

**Ineligible investments:** Investments not described herein are ineligible investments. In accordance with Section 53601.6 of the California Government Code, the City shall not invest any funds in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages. In addition, the City shall not invest any funds in any security that could result in zero interest accrual if held to maturity.

## **12.0 MASTER REPURCHASE AGREEMENTS**

A master repurchase agreement will be entered into prior to any repurchase or reverse repurchase agreement transaction. The agreement must specify the terms of the transaction, and in the case of reverse repos, may be entered into only with a primary dealer.

## **13.0 COLLATERALIZATION**

California Government Code, Sections 53652, et seq., requires depositories to post certain types and levels of collateral for public funds above the FDIC insurance amounts. The collateral requirements apply to bank deposits, both active (checking and savings accounts) and inactive (non-negotiable time certificates of deposit).

Collateral is also required for repurchase agreements. The market value of securities used as collateral for repurchase agreements shall not be allowed to fall below 102% of the value of the repurchase agreement and shall be valued daily by the tri-party custodial agent. Securities that can be pledged for collateral shall consist only of securities permitted in California Government Code Section 53601. If there is a default of the broker, the collateral securities can be sold. Since the securities are valued daily, it is likely that the sale proceeds will equal or exceed the value of the repurchase agreement amount.

## **14.0 DIVERSIFICATION**

The City of Anaheim will diversify its investments by security type, issuer and maturity dates. Concentration limits are indicated in the Authorized Investments section 11.0 for all investment categories except Treasury securities.

## **15.0 MAXIMUM MATURITIES**

To the extent possible, the City of Anaheim will attempt to match its investments with anticipated cash flow requirements. The weighted average maturity of the Portfolio will be limited to three (3) years or less. Investments will be restricted to securities with a final stated maturity not to exceed five (5) years.

## **16.0 PERFORMANCE STANDARDS**

The Portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

- 16.1 The City Treasurer's Report will include benchmark reporting. Since return on investment is the least important objective of the Portfolio, the benchmark will be used solely as a reference tool. The reporting of a benchmark does not imply that the City Treasurer will add additional risk to the Portfolio in order to attain or exceed the benchmark.

Investment performance shall be compared and evaluated against the following benchmarks:

Interpolated Yield:	Market Yield commensurate to the portfolio's average weighted maturity (wam)
Short Term Portfolio:	91 Day Treasury Bill
Long Term Portfolio:	Merrill Lynch AAA U.S. Treasury 1-3 year Index

## **17.0 REPORTING**

As previously discussed, Government Code Section 53646 has been amended to remove the requirement that quarterly reports be submitted to the legislative body. We believe that it is prudent to continue the submission of such reports. Consequently, the City Treasurer shall render a quarterly report within 30 days of quarter end, to the City Council, City Manager, the Budget, Investment and Technology Commission and the Internal Auditor containing detailed information on all securities, investments, and moneys of the City. In addition, the City Treasurer intends to distribute reports monthly.

The report will contain at a minimum the following information on the City Portfolio that is subject to this investment policy: the type of investment, name of the issuer, date of maturity, par value and cost of each investment, the weighted average maturity of the Investment's, any investments, including loans and security lending programs that are under the management of contracted parties, the market value and source of the valuation, a description of the compliance with the statement of investment policy, and a statement denoting the City's ability to meet its anticipated expenditure requirements for the next six months. In compliance with Government Code Section 53607, the report shall also provide investment transactions by month.



**18.0 POLICY REVIEW**

The City Treasurer and Budget, Investment and Technology Commission shall review the Policy, at least annually, to ensure its consistency with the overall investment objectives of preservation of principal, liquidity, and return on investments. The City Treasurer and Budget, Investment, and Technology Commission shall also consider relevance to current law, financial and economic trends, and the cash flows needs of the City of Anaheim.

An Investment Policy shall be rendered to, and adopted by the City Council, annually.

This Investment Policy shall become effective January 1, 2015.

**SUBMITTED BY:**

\_\_\_\_\_  
Henry W. Stern, CTP, City Treasurer

\_\_\_\_\_  
Date

## GLOSSARY

**AGENCIES:** Federal agency securities and/or Government sponsored enterprises.

**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.

**BROKER:** A broker brings buyers and sellers together for a commission.

**CALLABLE SECURITIES:** A security that can be redeemed by the issuer before the scheduled maturity.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Time certificates of deposit are collateralized in accordance with the State code. Large-denomination CD's are typically negotiable and non-collateralized.

**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.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The official annual report for the City. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory materials, and a detailed Statistical Section.

**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.

**CUSTODIAL TRUST:** A service to customers rendered by banks for a fee whereby assets are held in a protected form and cannot be attached by creditors of the bank.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his 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 of the securities.

**DERIVATIVES:** (1) Financial instruments whose return profile is linked to or derived from, the movement of one or more underlying index or security, and may include a leveraging

factor, or (2) financial contracts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

**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. US Treasury Bills.

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

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, 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):** Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLB is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

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

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

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

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae):** Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the US Government. Ginnie Mae securities are backed by the mortgages, including FHA and VA mortgages. The term “pass-throughs” is often used to describe Ginnie Maes.

**ISSUER:** A legal entity that has the power to issue and distribute securities. Issuers include corporations, municipalities, foreign and domestic governments and their agencies, and investment trusts.

**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 (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the County or State Treasurer for investment and reinvestment.

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

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

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

**MONEY MARKET:** The market in which short-term debt instruments (bills, commercial paper, bankers’ acceptances, etc.) are issued and traded.

**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 and investments 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. 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.

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

**RATE OF RETURN:** For fixed-rate securities, it is the coupon or contractual dividend rate divided by the purchase price which is also the current yield.

**REPURCHASE AGREEMENT (RP OR REPO):** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on 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.

**REVERSE REPO:** An agreement whereby a dealer agrees to buy securities and the investor agrees to repurchase them at a later date.

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

**SEC RULE 15C301:** See Uniform Net Capital Rule.

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

Securities Lending Program - similar to reverse repurchase activity where the local agency uses a third party to administer the program.

**STRUCTURED NOTES:** Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure.

Their market performance is impacted by the fluctuation of interest rates, the volatility of the embedded options and shifts in the shape of the yield curve.

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

**TREASURY BONDS:** Long-term coupon-bearing US Treasury securities issued as direct obligations of the US Government and having initial maturities of more than 10 years.

**TREASURY NOTES:** Medium-term coupon-bearing US Treasury securities issued as direct obligations of the US Government and having initial maturities from two to 10 years.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission requirement that member firms as well as non-member broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15:1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**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.

**Attachment A**

CITY OF ANAHEIM

OFFICE OF THE CITY TREASURER

**BROKER / DEALER QUESTIONNAIRE AND CERTIFICATION**

1. Name of Firm: \_\_\_\_\_
2. Address: \_\_\_\_\_
3. Telephone No. \_\_\_\_\_ Toll Free  
\_\_\_\_\_ Direct
4. Primary Representative    Manager / Partner-in-Charge  
Name \_\_\_\_\_    Name \_\_\_\_\_  
Title \_\_\_\_\_    Title \_\_\_\_\_  
Telephone No. \_\_\_\_\_                                  Telephone No. \_\_\_\_\_  
Fax No. \_\_\_\_\_    Fax No. \_\_\_\_\_  
Email \_\_\_\_\_    Email \_\_\_\_\_  
No. Years in Institutional Sales: \_\_\_\_\_                          No. Years in Institutional Sales: \_\_\_\_\_  
SEC License's: \_\_\_\_\_    SEC License's: \_\_\_\_\_
5. Are you a Primary Dealer in U.S. Government Securities?    Yes       No
6. Are you a Regional Dealer in U.S. Government Securities?    Yes       No
7. Are you a Broker (i.e., You **DO NOT** own positions of securities)    Yes       No
8. Are you NASD certified and licensed to sell to California municipalities?    Yes       No
9. What is the net capitalization of your firm? \_\_\_\_\_
10. What is the date of your firm's fiscal year end? \_\_\_\_\_
11. Is your firm owned by a holding company? If so, what is the name and net capitalization of the holding firm? \_\_\_\_\_
12. Please provide you Wiring and Delivery Instructions. \_\_\_\_\_

City of Anaheim  
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13. Which of the following securities are offered regularly by your trading desk?

- US Treasuries (Bills, CMB, Notes)     Federal Agencies (Discount Notes, Bonds)  
 Commercial Paper             Bankers Acceptances     Negotiable Cert of Deposit  
 Medium Term Corporate Notes     Repurchase Agreements     Money Market Funds  
 Asset Backed Securities/Mortgages     Reverse Repurchase Agreements

14. Which of the above securities does your firm specialize in marketing? \_\_\_\_\_

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

<u>Entity</u>	<u>Contact Person</u>	<u>Title</u>	<u>Telephone No.</u>	<u>Client Since</u>
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16. What reports, transactions, confirmations and paper trail would we receive?

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17. Please include samples of research reports or market information that your firm regularly provides to local agency clients.

18. What precautions are taken by your firm to protect the interest of the public when dealing with government agencies as investors?

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19. Have you or your firm been censored or punished by a regulatory State or Federal Agency for improper or fraudulent activities, related to the sale of securities?     Yes     No



20. If answer to question # 19 is YES, please explain (charge(s), date(s), action(s) taken

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21. Attach certification documentation of your capital adequacy and financial solvency. This needs to be an audited financial statement by an independent, recognized accounting firm. The audited financial statement must be provided annually to the City within 120 days of your firm's fiscal year-end.

**CERTIFICATION**

I hereby certify that I have personally read the City of Anaheim's Investment Policy and the California Government Codes pertaining to investments and deposits of the City of Anaheim, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and the City of Anaheim. **I understand, however, that our firm is not obligated to monitor the percentage limits on the investments as described in the City of Anaheim's Investment Policy.** All sales personnel will be routinely informed of the City of Anaheim's investment objectives, horizon, outlook, strategies and risk constraints whenever we are so advised. We pledge to exercise due diligence in informing the City of Anaheim's Investment Officers of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

**NOTE: Completion of the questionnaire is only part of the City of Anaheim's certification process and DOES NOT guarantee that the applicant will be approved to do business with the City of Anaheim.**

**SIGNED:** \_\_\_\_\_

**DATE:** \_\_\_\_\_

**COUNTERSIGNED:** \_\_\_\_\_

**DATE:** \_\_\_\_\_

**(Person in charge of government securities operations)**

**Attachment B**

**CITY OF ANAHEIM**

**OFFICE OF THE CITY TREASURER**

**BANK/SAVINGS AND LOAN QUESTIONNAIRE AND CERTIFICATION**

1. Name of Firm \_\_\_\_\_
2. Address \_\_\_\_\_
3. Telephone No. ( ) \_\_\_\_\_ (Local) ( ) \_\_\_\_\_ (National Headquarters)
4. Primary Representative:                      Manager:  
Name \_\_\_\_\_ Name \_\_\_\_\_  
Title \_\_\_\_\_ Title \_\_\_\_\_  
Telephone No. ( ) \_\_\_\_\_ Telephone No. ( ) \_\_\_\_\_  
E-mail \_\_\_\_\_ E-mail \_\_\_\_\_
5. What is your Community Reinvestment Act (CRA) Rating? \_\_\_\_\_
6. What are the Total Assets of the Bank/Savings and Loan? \_\_\_\_\_
7. What is the current Net Worth Ratio of your institution? \_\_\_\_\_
8. What was the Net Worth Ratio for the Previous Year? \_\_\_\_\_
9. What are your required Capital Ratios:  
A. Tangible Capital Ratio \_\_\_\_\_  
B. Core Capital Ratio \_\_\_\_\_  
C. Risk-Based Capital Ratio \_\_\_\_\_
10. What are your Ratings (i.e. S&P, Moody's, Thompson)? \_\_\_\_\_

11. What is the date of your Fiscal Year-End? \_\_\_\_\_

Has there been a year during the past three years in which the Bank/Savings and Loan did not make a profit? \_\_\_\_\_

12. Have you read the California Government Code Section 53630, et seq., pertaining to the State's requirements governing the deposit of monies by Local Agencies that include cities?       YES       NO

13. Amounts above the FDIC insurance coverage must be collateralized as specified in the California Government Code. Where is the collateral for deposits held?

\_\_\_\_\_

Has there ever been a failure to fully collateralize? If YES, please attach explanation.

\_\_\_\_\_

14. What is the education level of the Primary Contact(s)? \_\_\_\_\_

15. How many years of related experience does the Primary Contact(s) have?

\_\_\_\_\_

16. What other banking services would you be interested in providing the City of Anaheim? \_\_\_\_\_

17. What transaction documents and reports would we receive? \_\_\_\_\_

\_\_\_\_\_

18. What information would you provide to our City Treasurer? \_\_\_\_\_

\_\_\_\_\_

19. Describe the precautions taken by your Bank/Savings and Loan to protect the interest of the public when dealing with government agencies as depositors or investors.

\_\_\_\_\_

20. Please provide any signature cards that you may require, as well as, three sets of your Contract of Deposit of Moneys pre-signed and sealed by your institution.

21. Please provide your Wiring Instructions. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

22. Please provide your most recent certified financial statement. In addition, an audited financial statement must be provided within 120 days of your fiscal year-end.

**Bank and Savings & Loan**

**CERTIFICATION**

I hereby certify that I have personally read the City of Anaheim's Investment Policy and the California Government Codes pertaining to investments and deposits of the City of Anaheim, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and the City of Anaheim. **I understand, however, that our firm is not obligated to monitor the percentage limits on the investments as described in the policy.** All sales personnel will be routinely informed of the City of Anaheim's investment objectives, horizon, outlook, strategies and risk constraints whenever we are so advised. We pledge to exercise due diligence in informing the City of Anaheim's Investment Officers of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

**NOTE: Completion of the questionnaire is only part of the City of Anaheim's certification process and DOES NOT guarantee that the applicant will be approved to do business with the City of Anaheim.**

SIGNED: \_\_\_\_\_

DATE: \_\_\_\_\_

COUNTERSIGNED: \_\_\_\_\_

DATE: \_\_\_\_\_