

City of La Habra

INVESTMENT POLICY



Effective January 1, 2023

INVESTMENT POLICY

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City of La Habra Investment Policy

1.0 Scope

- 1.0.1 In accordance with City Municipal Code Section 2.17.020(C) (enacted by City Ordinance 1589), the Director of Finance is assigned the concurrent function of City Treasurer and is authorized to invest the City's funds in accordance with the State of California Government Code, Section 53600, et seq. Throughout this document, reference to the City Treasurer will mean the Director of Finance and Administrative Services/City Treasurer. The objective of this policy is to ensure that the temporarily idle funds of the City of La Habra are prudently invested to preserve capital and provide necessary liquidity, while maximizing earnings.
- 1.0.2 Investments may only be made as authorized by the State of California Government Code, Section 53600, et seq., the ("Code") and this policy. This policy conforms to the Code as well as to customary standards of prudent investment management. Should the provisions of the Code become more restrictive than those contained herein, such provisions will be considered as immediately incorporated in this policy.
- 1.0.3 This policy sets forth the guidelines for the investment of surplus funds for the City, the Successor Agency to the La Habra Redevelopment Agency, the Housing Authority, the Civic Improvement Authority and the La Habra Utility Authority. Excluded from this policy are guidelines for the investment of proceeds derived from the issuance of debt and proceeds held in the City's Defined Compensation (457) Plan. The investment of debt proceeds is governed by each bond transaction's indenture and employees are responsible for the selection of investments for their personal deferred compensation accounts.
- 1.0.4 All investment managers may be governed by Portfolio Guidelines, which on an individual basis may differ from the general guidelines outlined herein. The City Treasurer is responsible for monitoring and ensuring that the City's funds subject to this policy remain in compliance with this policy, and shall report to the City Council quarterly on compliance.

1.1 Investment Objectives

- 1.1.1 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.

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C. Yield: The City shall manage its funds to maximize the return on investments consistent with the two primary objectives of safety and liquidity. The investment goals are to maximize interest income through the prudent implementation of the Investment Policy and developed guidelines.

- 1.1.2 Investments shall be made in the context of the “Prudent Investor” standard which states: "When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, 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. Within the limitations of this section and considering individual investments as part of an overall strategy, a trustee is authorized to acquire investments as authorized by law."
- 1.1.3 Investment officials acting in accordance with this investment policy, written portfolio guidelines and procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in the quarterly investment report to the City Council, and appropriate action is taken to control adverse developments.

1.2 Delegation of Authority

- 1.2.1 Authority to manage the funds governed by this policy is derived from the California Government Code Section 53600, et seq. Management responsibility for the City's investment portfolio, surplus funds and account holdings is hereby delegated to the City Treasurer who shall be responsible to invest or reinvest the City's funds, to sell or exchange securities so purchased and to deposit securities for safekeeping to the City Treasurer.
- 1.2.2 The City Treasurer shall establish written procedures for the operation of the investment program consistent with this investment policy, including establishment of appropriate written agreements with financial institutions. The City Treasurer may engage independent investment managers to assist in the investment of the City's financial assets.
- 1.2.3 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/her 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/her investment responsibility.

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1.2.4 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.

1.3 Permitted Investments

1.3.1 All City funds which are not required for immediate cash expenditures shall be invested in income producing investments or accounts, in conformance with the provisions and restrictions of this investment policy as outlined in Appendix A and as specifically authorized by the Code, Section 53600, et seq.

1.3.2 State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to, mutual funds (other than money market funds as defined by the Securities and Exchange Commission SEC), unregulated and/or unrated investment pools or trusts, collateralized mortgage obligations and futures and options.

1.3.3 In accordance with Government Code Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.

1.3.4 Effective January 1, 2021, investment in any security not issued or backed by the US government that could result in a zero interest accrual if held to maturity is prohibited.

1.3.5 Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.

1.3.6 Purchasing or selling securities on margin is prohibited.

1.3.7 The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.

1.3.8 Prohibited investments held in the portfolio at the time of adoption of this policy may be held until maturity at the discretion of the Treasurer. All exceptions will be noted in the quarterly investment report to the City Council.

1.4 Risk Management

1.4.1 In order to reduce overall portfolio risk, investments shall be diversified among types of investments, maturities of those investments, issuers and depository institutions. See Appendix A for specific concentration limits by type of investment. These limits apply at the time of purchase.

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1.4.2 Management of Market Risk

A. Market risk is the risk that the portfolio will decline in value due to changes in the general level of interest rates. The City recognizes that, over time, longer-term portfolios achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The City shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making some longer-term investments only with funds that are not needed for current cash flow purposes. The City further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The City, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

1. The maximum stated final maturity of individual securities in the portfolio shall be five years, except as otherwise stated in this policy;
2. The City shall maintain a minimum of three months budgeted operating expenditures in short term investments; and
3. The average weighted maturity of the portfolio shall not exceed three years.

1.4.3 Management of Credit Risk

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

1. No more than 10% of the total portfolio may be invested in securities of any single issuer and 5% for any single issue, other than the US Government, its agencies and instrumentalities, money market mutual funds, and Supranational issuers;
2. The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions, the City's risk preferences or immediate cash needs; and
3. If securities owned by the City are downgraded by a Nationally Recognized Statistical Rating Organization (NRSRO) to a level below the quality required by this Investment Policy, it shall be the City's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

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4. If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported quarterly to the City Council.

1.5 Selection of Depository Institutions, Investment Managers and Broker-Dealers

- 1.5.1 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 or 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 1.7.3 of this Policy, at the City Treasurer's discretion.
- 1.5.2 In selecting external investment managers and brokers, past performance, stability, financial strength, reputation, area of expertise, and willingness and ability to work with City officials to meet the City's investment objectives and to manage risk in the investment program within the parameters of this Investment Policy and the Code shall be considered. External investment managers must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940.
- 1.5.3 Pursuant to Code, Section 53601.5, the City and its investment managers 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.
 - A. Internal investment managers will only purchase or sell securities from City approved broker-dealers that 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

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(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. Internal investment managers will only use broker-dealers that have a minimum of three years of experience working for a primary dealer or five years working for a non-primary dealer.
- C. External investment managers may purchase or sell securities from non-Primary Dealers qualified under U.S. Securities and Exchange Commission Rule 15C3-1, the Uniform Net Capital Rule, and provided that the dealer is a certified member of the National Association of Securities Dealers. External investment managers shall submit to the City at least quarterly, a list of brokers and dealers used during the period.
- D. External investment managers must certify in writing that they will purchase securities in compliance with this Investment Policy, City Procedures, and applicable State and Federal laws.

1.5.4 Depositories, and external investment managers, who do business with the City, shall sign a Certification of Understanding (see Appendix B). All broker-dealers who do business with the City's internal investment managers shall acknowledge receipt of the City's Investment Policy (see Appendix C).

1.6 Custody and Safekeeping of Securities and City Funds

- 1.6.1 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. The repurchase agreement must be covered by a master written agreement in the form of the current Public Securities Association agreement.
- 1.6.2 All investment transactions shall be settled "delivery vs. payment", with the exception of bank deposits, money market fund investments, and Local Agency Investment Fund or other Local Government Investment Pools. Delivery may be physical, via a nationally recognized securities depository such as the Depository Trust Company, or through the Federal Reserve Book Entry system.
- 1.6.3 Funds deposited by the City shall be secured by a Depository in compliance with the requirements of the Code, Section 53652. Such collateralization shall be designated and agreed to in writing.
- 1.6.4 Investment securities in bearer form such as Negotiable Certificates of Deposit and Bankers' Acceptances shall be held in a qualified safekeeping institution.

1.7 Reports and Communications

- 1.7.1 The City Treasurer is responsible for ensuring compliance with all applicable Local, State, and Federal laws governing the reporting of investments made with public funds. All investment portfolios will be monitored for compliance. Non-compliance issues will be included in the quarterly City Council report as stated in Section 1.5.3(4) of this Policy.
- 1.7.2 The City Treasurer shall annually submit a statement of investment policy to the City Council for approval. The existing approved policy will remain in effect until the City Council approves the recommended statement of investment policy.
- 1.7.3 The City Treasurer shall render a quarterly cash, investment, and transaction report to the City Manager (referred to as the Chief Executive Officer by the Code, Section 53646, b) and the City Council within 90 days following the end of the quarter covered by the report. The report shall include a description of the City's funds, investments, or programs that are under the management of the contracted parties, including lending programs. The report shall include at a minimum:
- A. The type of investment, name of the issuer, date of maturity, par value and cost in each investment.
 - B. Investments and moneys held by the City.
 - C. List and describe any of the City's funds, investments, or programs that are under the management of contracted parties.
 - D. Current Market value as of the date of the report, and shall include the source of the valuation.
 - E. Statement of compliance of the investment portfolio to the Investment Policy, or manner in which the portfolio is not in compliance.
 - F. Statement denoting the ability of the City to meet its pool's expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may not be, available.
- 1.7.4 Investment managers, both internal and external, shall monitor investments and market conditions and report monthly to the City Treasurer.
- 1.7.5 In addition to the reporting requirements required by Government Code Section 53646, Section 53607 requires that a local agency treasurer who has been delegated authority to invest or reinvest funds of the local agency by the legislative body must submit a monthly report to the legislative body accounting for transactions made during the reporting period.

1.8 Portfolio Guidelines

- 1.8.1 Portfolio Guidelines are the operating procedures used to implement the Investment Policy approved by the City Council. The City Treasurer may impose additional requirements or constraints within the parameters set by the Investment Policy.

1.9 Internal Control

- 1.9.1 The City Treasurer shall establish a system of internal controls designed to prevent losses of public funds arising from fraud, employee or third party error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by City employees or agents.

2.0 Investment Policy Adoption

- 2.0.1 The Investment Policy shall be reviewed and adopted annually by resolution of the City Council and the Directors of the Successor Agency to the La Habra Redevelopment Agency, Housing Authority and Civic Improvement Authority.

2.1 Purchasing Guidelines

- 2.1.1 Investment managers shall purchase and sell securities at the price and execution that is most beneficial to the City. The City's liquidity requirements shall be analyzed and an interest rate analysis shall be conducted to determine the optimal investment horizon prior to requesting bids or offers. Investments shall be purchased and sold through a competitive bid/offer process. Bids/offers for securities of comparable maturity, credit and liquidity shall be received from at least three financial institutions, whenever possible. In the absence of at least three competitive bids, supporting documentation illustrating current market levels and demonstrating that a favorable bid/offer was tendered for the investment shall be recorded and filed.

2.2 Benchmarks

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

- Short Maturity Portfolios: Three-month Treasury Bill
- Long Maturity Portfolios: ICE Bank of America Merrill Lynch 1-5 yr. US Treasury and Agency Index

Summary of Authorized Investment Types & Restrictions*

- See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

| # | Type of Investment | % of Portfolio Authorized* | Other Restrictions |
|----|---|----------------------------|---|
| 1. | Bonds issued by the City of La Habra or an agency of the City of La Habra. | 10% | Maximum maturity of five (5) years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least three (3) months prior to purchase. |
| 2. | United States Treasury notes, bonds, bills or certificates of indebtedness or those for which the full faith and credit of the United States are pledged for the payment of principal and interest. | 100% | Maximum maturity of five (5) years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least three (3) months prior to purchase. |
| 3. | Registered state warrants or treasury notes or bonds of the State of California. | 20% | Such obligations must be rated A1, SP-1 or equivalent or better short term; or Aa/AA or better long term, by a national rating agency. |
| 4. | Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California. | 20% | Such obligations must be rated A1, SP-1 or equivalent or better short term; or Aa/AA or better long term, by a national rating agency. |
| 5. | Obligations issued by Federal Agencies or U.S. Government Sponsored Enterprises (GSEs), including the Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Farm Credit Banks, Student Loan Marketing Association, Tennessee Valley Authority, or other Federal Agencies or GSEs. This includes | 100% | No more than 10% of the portfolio may be invested in any one Federal Agency or government-sponsored enterprise (GSE) issue and no more than 35% of the portfolio may be invested in any one Federal Agency or GSE issuer. |

Summary of Authorized Investment Types & Restrictions*

- See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

| # | Type of Investment | % of Portfolio Authorized* | Other Restrictions |
|----|---|----------------------------|---|
| | mortgage pass-through securities issued by these agencies. | | |
| 6. | Bill of exchanges or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances. | 20% | Purchases of bankers' acceptances may not exceed 180 days maturity. No more than 5% of the portfolio may be invested in any one bank or corporate issuer. |
| 7. | Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc., or Standard & Poor's Corporation. Eligible paper is further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000) and having an "A" or higher rating for the issuer's debentures, other than commercial paper, if any, as provided for by Moody's Investor's Service, Inc. or Standard & Poor's Corporation. | 25%. | Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of an issuing corporation. No more than 5% of the portfolio may be invested in any one corporate or bank issuer. |
| 8. | Negotiable certificates of deposits issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank. | 30% | Maximum maturity of five (5) years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least three (3) months prior to purchase. No more than 5% of the portfolio may be invested in any one bank name. |
| 9. | Time Certificates of Deposit. | 30% | The City may invest in non-negotiable time deposits collateralized in accordance with the California Government Code, in those banks, savings |

Summary of Authorized Investment Types & Restrictions*

- See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

| # | Type of Investment | % of Portfolio Authorized* | Other Restrictions |
|-----|---|----------------------------|--|
| | | | <p>and loan associations, and credit unions that meet the requirements for investment.</p> <p>Collateral for deposits over the amount insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA) will be valued at 105% with US Government Securities.</p> <p>No more than 5% of the portfolio may be invested in any one bank name and the aggregate invested in any one bank name may not exceed the amount of insured coverage provided by either the FDIC or the NCUA.</p> |
| 10. | <p>Investments in repurchase agreements. The repurchase agreement must be covered by a master written agreement in the form of the current Public Securities Association agreement.</p> <p>Repurchase agreements shall be collateralized at all times. Collateral shall be limited to obligations of the United States and Federal Agencies with a market value of 102 percent or greater of the funds borrowed against those securities at all times. Collateral shall be delivered to a third party custodian in all cases. Collateral for term repurchase agreements shall be valued daily by the City's investment manager (for internal funds) or external investment manager. The City shall obtain a first lien and security interest in all collateral.</p> | 100% | <p>See California Government Code Section 53601(j)</p> <p>Term of repurchase agreement cannot exceed 90 days.</p> <p>Repurchase agreements shall be executed through Primary Broker-Dealers or banks.</p> |

Summary of Authorized Investment Types & Restrictions*

- See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

| # | Type of Investment | % of Portfolio Authorized* | Other Restrictions |
|-----|---|---|---|
| 13. | Medium-term notes issued by corporations organized and operating within the United States, or by any state within the United States. | 25% | <p>Maximum five (5) year maturity.</p> <p>Up to 15% of the portfolio may be invested in notes rated “A” or its equivalent, or better, by NRSO (Moody’s, Standard and Poor’s, or Fitch).</p> <p>The remaining allocation of the portfolio may be invested in notes rated “AA” or its equivalent, or better, by NRSRO.</p> <p>No more than 5% of the portfolio may be invested in one bank or corporate name.</p> |
| 14. | Shares of beneficial interest issued by diversified management companies (money market funds) investing in the securities and obligations as authorized by the State of California Code 53601 and 53630 et seq. | <p>No more than 20% of the portfolio in money market funds, with no more than 20% of the total portfolio in any one money market fund.</p> <p>No portion of the portfolio may be invested in mutual funds.</p> | <p>Companies must have either 1) the highest ranking or the highest letter and numerical rating provided by not less than two of the nationally recognized rating services, or (2) retained an investment advisor registered or exempt with the Securities and Exchange Commission, with no less than five years experience investing in A) Bond Funds: the securities and obligations authorized by State Code 53601 a-j inclusive and l or m; or B) Money Market Mutual Funds: money market mutual funds; both with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price may not include any commissions charged by these companies.</p> |

Summary of Authorized Investment Types & Restrictions*

- See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

| # | Type of Investment | % of Portfolio Authorized* | Other Restrictions |
|-----|---|----------------------------|--|
| 15. | State of California Local Agency Investment fund (LAIF), or other Local Government Investment Pools (LGIP) established by public California entities. | See note, right. | Maximum investment in individual LGIP's as permitted by state code. This limit does not include funds required by law, ordinance, or statute to be invested in pool. Each pool must be evaluated and approved by the City Treasurer as to credit worthiness, security, and conformity to state and local laws. |
| 16. | Asset-Backed and Mortgage-Backed Securities | 10% | Rated "AA" or higher, or the equivalent, by a NRSRO . 5% maximum per issue, maximum maturity is five years. |
| 17. | Supranational Securities | 20% | United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum maturity of five years or less, and eligible for purchase or sale within the United States. Investments under this subdivision shall be rated "AA" or better by an NRSRO. 10% maximum per issue. |

APPENDIX B

CITY OF LA HABRA

CERTIFICATION OF UNDERSTANDING

The City of La Habra Investment Policy as approved by the City Council requires that all Financial Institutions and Investment Managers doing business with the City sign a Certification of Understanding acknowledging that:

1. You have read and are familiar with the City's Investment Policy and Guidelines as well as applicable Federal and State laws.
2. You meet the requirements as outlined in the City's Investment Policy.
3. You agree to make every reasonable effort to protect the assets of the City from loss.
4. You agree to notify the City in writing of any potential conflicts of interest.
5. You agree to notify the City in writing of any changes in personnel with decision-making authority over the City's funds within 24 hours of such event.

Failure to submit a Certification of Understanding shall result in the withdrawal by the City of all funds held by the financial institution or investment manager and the immediate revocation of any rights to act as an agent of the City for the purchase of securities or investment of funds on behalf of the City.

The City Council is committed to the goals of the Community Reinvestment Act (CRA). As part of the certification process for depository institutions, it is requested that you remit evidence of your most recent CRA rating.

SIGNED:_____ DATE:_____

Print Name and Title:_____

After reading and signing this Certification of Understanding please return with any supporting documentation to:

City of La Habra
Finance Department
110 E. La Habra Blvd.,
La Habra, CA 90633

City of La Habra use only:

Approved:_____ Disapproved:_____ Date:_____

Signature:_____

Date Notification sent:_____ Sent by:_____

APPENDIX C

CITY OF LA HABRA

BROKER-DEALER RECEIPT OF INVESTMENT POLICY

We are in receipt of the City of La Habra's Investment Policy.

We have read the policy and understand the provisions and guidelines of the policy. All salespersons covering the City's account will be made aware of this policy and will be directed to give consideration to its provisions and constraints in selecting investment opportunities to present to the City.

Signed:

Name

Name

Title

Title

Firm Name

Date

After reading and signing this Receipt of Investment Policy, please return with supporting documentation to:

City of La Habra
Finance Department
110 E. La Habra Blvd.,
La Habra, CA 90633

City of La Habra use only:

Approved:_____ Disapproved:_____ Date:_____

Signature:_____

Date notification sent:_____ Sent by:_____

APPENDIX D

CITY OF LA HABRA

BROKER-DEALER QUESTIONNAIRE

1. Name of Firm _____
2. Address _____
_____ (Local) _____ (National Headquarters)
3. Telephone No. () _____ Telephone No. () _____
(Local) (National Headquarters)
4. Primary Representative
Name _____
Title _____
Telephone No. _____
No. of Yrs. in Institutional Sales _____ No. of Yrs. in Institutional Sales _____
No. of Yrs. with Firm _____ No. of Yrs. with Firm _____
5. Are you a Primary Dealer in U.S. Government Securities? ___ Yes ___ No
6. Are you a Broker instead of Dealer, i.e., you DO NOT own positions of Securities?
___ Yes ___ No
7. What is the net capitalization of your Firm? _____
If you are a depository institution please provide the following most current certified or audited information:
A. Tangible, Core, and Risk-Based Capital Ratios _____
B. CRA rating _____
8. What is the date of your Firm's fiscal year-end? _____
9. Is your Firm owned by a Holding Company? If so, what is its name and net capitalization? _____
10. Please provide your Wiring and Delivery Instructions

11. Which of the following instruments are offered regularly by your local desk?

- T-Bills Treasury Notes/Bonds Discount Notes NCD's
- Agencies (specify) _____
- BA's (Domestic) BA's (Foreign) Commercial Paper
- Medium-Term Notes Repurchase Agreements

12. Does your Firm specialize in any of the instruments listed above?

13. Please identify your comparable government agency clients in the City of La Habra's geographical area.

| <u>Entity</u> | <u>Contact Person</u> | <u>Telephone No.</u> | <u>Client Since</u> |
|---------------|-----------------------|----------------------|---------------------|
| | | | |
| | | | |
| | | | |

14. What reports, confirmations, and other documentation would the City receive?

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

16. What precautions are taken by your Firm to protect the interests of the public when dealing with government agencies as investors? _____

17. Have you or your Firm been censored, sanctioned or disciplined by a Regulatory State or Federal Agency for improper or fraudulent activities, related to the sale of securities within the past five years? Yes No

18. If yes, please explain _____

19. Attach certified documentation of your capital adequacy and financial solvency. In addition, an audited financial statement must be provided currently, and within 120 days of your fiscal year-end.

20. Please indicate the current licenses of the City's representatives:
 Agent: _____ License or registration: _____

21. Is your firm a member of the NASD? Does it subscribe to the rules of fair practice?

APPENDIX E

CITY OF LA HABRA

GLOSSARY OF INVESTMENT TERMS

AGENCIES. Shorthand market terminology for any obligation issued by a *government-sponsored entity (GSE)*, or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called “FreddieMac” issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as “FannieMae,” issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as “GinnieMae,” issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASKED. The price at which a seller offers to sell a security.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER’S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which “accepts” the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BID. The price at which a buyer offers to buy a security.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since an issuer issues securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than \$250,000 in CDs from a single

financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than \$250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

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

COST YIELD. The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

CURRENT YIELD. The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

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

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See modified duration).

FEDERAL FUNDS RATE. The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

FEDERAL OPEN MARKET COMMITTEE. A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

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

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL AGENCY INVESTMENT FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

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

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

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MARKING TO MARKET. The process of posting current market values for securities in a portfolio.

MATURITY. The final date upon which the principal of a security becomes due and payable.

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

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

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

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO).
A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, Standard and Poor's, and Moody's.

NEGOTIABLE CD. A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

PREMIUM. The difference between the par value of a bond and the cost of the bond, when the cost is above par.

PREPAYMENT SPEED. A measure of how quickly principal is repaid to investors in mortgage securities.

PREPAYMENT WINDOW. The time period over which principal repayments will be received on mortgage securities at a specified prepayment speed.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

REALIZED YIELD. The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

REGIONAL DEALER. A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

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

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

VOLATILITY. The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

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