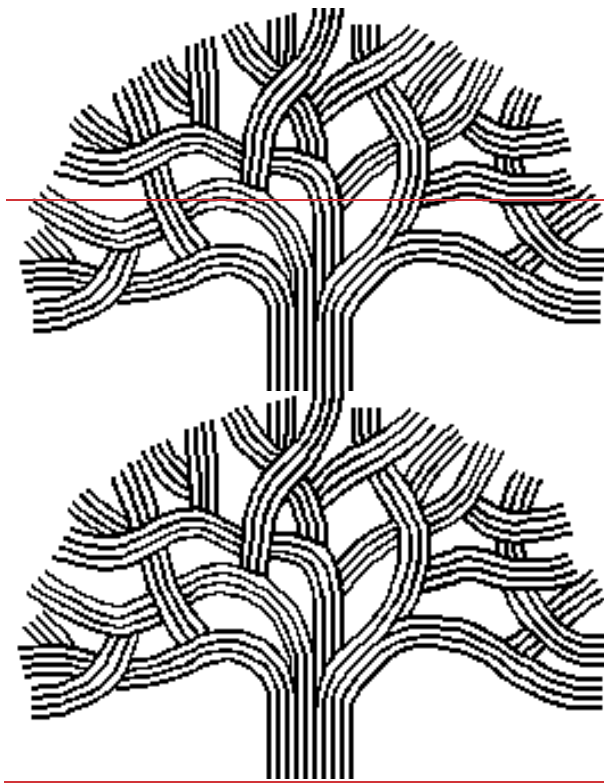


**City of Oakland  
& Oakland Redevelopment Successor  
Agency  
Investment Policy  
For  
Fiscal Year ~~2025-26~~2026-27**



Prepared by  
The Finance Department, Treasury Bureau  
Adopted by the City Council  
On ~~October 7, 2025~~ June 2<sup>nd</sup> 2026

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**1.0 POLICY**

The purpose of this Investment Policy (“Policy”) is to establish overall guidelines for the management and investment of the City of Oakland (the “City”) public funds. This Investment Policy is amended and adopted as of ~~October 7<sup>th</sup>, 2025~~ June 2<sup>nd</sup> 2026 by the City Council and ~~will serve as the City of Oakland’s Investment Policy for Fiscal Year 2025-26~~ 2026-27 and until it’s further revised.

**2.0 SCOPE**

The Investment Policy applies to the operating funds of the City of Oakland, and the Port of Oakland (the “City Operating Pool”), which includes the General Fund, Special Revenue Funds, Debt Service Funds and all other funds comprised in City Operating Pool.

- 2.1 Proceeds of notes, bonds issues or similar financings including, but not limited to, reserve funds, project funds, debt service funds and capital trust funds derived from such financing, are not governed by this Investment Policy, but rather shall be invested pursuant to their respective bond indentures or the State of California Government Code 53600, as applicable.
- 2.2 Retirement/Pension Funds and Deferred Compensation Funds are also not governed by this Investment Policy, but rather by the policies and Federal or State statutes explicitly applicable to such funds.

**3.0 PRUDENCE**

All investments and evaluation of such investments shall be made with the Prudent Investor Standard as set forth by California Government Code, Section 53600.3 ~~is defined as:~~

Prudent Investor Standard: Acting with care, skill, prudence and diligence under the

circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the professional management of their business affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

#### **4.0 OBJECTIVES**

The primary objectives, in order of priority, of the City Portfolio are:

##### **4.1 Preservation of Capital (Safety)**

The first and primary goal of the Portfolio is the preservation of capital. Investment shall be undertaken in a manner to avoid losses due to market value risk, issuer default and broker default. To attain this objective; investments are diversified.

##### **4.2 Liquidity**

The Portfolio will be structured in a manner that will provide cash as needed to meet anticipated disbursements. Cash flow modeling ensures that investments mature as needed for disbursements.

##### **4.3 Diversity**

The objective is to avoid over-concentration in issuers, instruments, and maturity sectors. No more than 5 percent of the total assets of the investments held by the City may be invested in the securities of any one issuer, except the obligations of the United States government or government-sponsored enterprises.

##### **4.4 Yield**

The Portfolio is also managed to maximize its overall market return with consideration of the safety, liquidity, and diversity parameters discussed above. Exception to the prohibition of securities issued by, or backed by, the United States government that could result in zero or negative interest accrual if held to maturity, in the event of or duration of negative market interest rates. This exception will sunset on January 1<sup>st</sup>, ~~2026~~2031.

#### **5.0 DELEGATION OF AUTHORITY**

Management responsibility for the investment program is specifically delegated by the City Administrator or designee to the Finance Director (“Treasurer”) or designee who shall establish procedures for the investment programs, which are consistent with the Investment Policy. Authorization for investment decisions is limited to the Treasurer or designee. The Treasury Administrator and/or Investment Operations Manager may execute investment transactions in the absence of the Treasurer or designee per the Treasurer’s instructions or prior authorization.

A Treasury Administrator or Investment Operations Manager may make decisions only with respect to overnight investments, but may implement investment decisions received directly from the Treasurer or designee.

#### **6.0 INTERNAL CONTROL**

The Treasurer or designee shall maintain a system of internal controls designed to ensure compliance with the Investment Policy and to prevent losses due to fraud, employee error, and misrepresentations by third parties or unanticipated changes in financial markets.

**7.0 ETHICS AND CONFLICTS OF INTEREST**

All officers and employees involved in the investment process shall not engage in any personal business activity, which could conflict with proper execution of investments subject to this Policy. Any material financial interests in financial institutions which do business with the City should be disclosed to the City Administrator. All individuals involved in the investment process are required to report all gifts and income in accordance with California State Law.

**8.0 SAFEKEEPING AND CUSTODY**

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis pursuant to approved custodial safekeeping agreements. All securities owned by the City shall be held in safekeeping by the City’s custodial bank, which acts as agent for the City under the terms of custody agreement.

**9.0 APPLICABLE ORDINANCES**

9.1 Nuclear Free Zone Ordinance

Under the guidelines of a voter-approved Measure, the Oakland City Council approved Ordinance No. 11062 C.M.S effective December 16, 1988, which restricts the City’s investments in U.S Government Treasuries. The Treasurer shall make every attempt to invest in any available short-term option that provides approximately the same level of security and return as Treasuries. In the event that no reasonable alternatives exist, or to the extent that the City may experience financial hardship as a result of investment in these alternatives, the City Council may adopt a waiver for a period not to exceed 60 days, as authorized by the Ordinance, allowing the City to invest in U.S Treasuries.

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9.2 Linked Banking Ordinance

Pursuant to Ordinance No. 12066 C.M.S adopted by Council on July 14,1998, the City has established a Linked Banking Service Program. This reference applies to depositories for both the City of Oakland and the Port of Oakland banking needs. Depositories are defined within the Ordinance as "all banking services utilized by the City including the Port of Oakland operating fund, with the exception of investments made through investment banks and broker/dealers." Depositories providing services to the City and the Port of Oakland must provide to the City, annually, the information enumerated under Section 3 of the Ordinance. On July 27 2017, City Council adopted Ordinance No. 13445 C.M.S that Amended Ordinance No. 12606 C.M.S.

9.3 Tobacco Divestiture Resolution

On February 17, 1998, Council adopted Resolution No. 74074 C.M.S., which prohibits investment in businesses deriving greater than fifteen percent of their revenues from tobacco products. The Treasurer maintains a list of firms excluded from permitted investments due to the tobacco divestiture requirements, updated on annual basis.

9.4 Fossil Fuel Divestiture Resolution

On June 17, 2014, Council adopted Resolution No. 85053 C.M.S. which prohibits the Investment or ownership stake in any companies that extract, produce, refine, burn or distribute fossil fuels. The Treasurer is in full compliance with this Resolution.

9.5 Firearm or Gun Manufacturer Divestiture Resolution

On March 5, 2013, Council adopted Resolution No. 84242 C.M.S which prohibits investment or ownership stake in any manufacturer of firearms or ammunition.

9.6 Sanctuary City Investment Ordinance

On June 5, 2019, Council adopted Ordinance No. 13540 C.M.S which prohibits the City from investing in companies that contract with the United States Immigration and Customs Enforcement, Customs and Border Protection, or the Department of Health and Human Services of Refugee Resettlement to provide services or goods for data collection or immigration detention services.

City of Oakland Resolutions and Ordinances related to the investment of City funds and adopted after adoption of this Investment Policy are incorporated herein by reference for Fiscal Year ~~2025-26~~2026-27.

**10.0 SOCIAL RESPONSIBILITY**

When possible, it is the City's policy to invest in companies that promote the use and production of renewable energy resources and any other socially responsible investments, subject to the prudent investment standard.

**11.0 REPORTING**

11.1 City Council and Council Committees

The City Administrator or designee shall submit the City's Investment Policy to the City Council for approval each year.

As both best practice and sound financial management practices, the City Administrator or designee will publish a quarterly cash management report.

~~Both the quarterly~~Quarterly cash management ~~report~~reports are deemed timely pursuant to this Investment

Policy and Government Code Section 53646, to the extent that the reports are submitted to City Clerk for scheduling within 45 days following the end of the quarter.

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Due to the City Council's summer recess, the quarterly cash management report for the period ending June 30 will be deemed timely provided that the City Administrator submits the report to the City Clerk by the following September for scheduling to a City Council or a City Council committee meeting.

The content of the report ~~include~~includes the information required under Government Code Section 53646: the type of investment, issuer, date of maturity, par and dollar amount invested (this data may be in the form of a subsidiary ledger of investments); a description of any investments under management of contracted parties, if any; current market values and source of valuation; statement of compliance or manner of non-compliance with the Investment Policy; and a statement denoting the ability to meet the Fund's expenditure requirements for the next six months. In addition, the report shall summarize economic conditions, liquidity, diversity, risk characteristics and other features of the portfolio. The report will disclose the total investment return for the 3-month period. In meeting these requirements, the report shall include an appendix that discloses all transactions during each month and the holdings at the end of each month during the period being reported.

#### 11.2 Annual Audit

The Investment Portfolio is priced to market pursuant to the Government Accounting Standards Board (GASB) and reported in compliance with General Accepted Accounting Principles. Annual disclosure requirements including Custodial Credit Risk, Credit Risk, Concentration of Credit Risk, Interest Rate Risk and Foreign Currency Risk are reported in the City's Annual Comprehensive Financial Report (ACFR).

#### 11.3 Internal Audits

Internal audits of treasury operations may be conducted periodically to review its procedures and policies and make any recommendations for changes and improvements if needed.

### **12.0 TRADING POLICES**

#### 12.1 Sales Prior to Maturity

"Buy and hold" is not necessarily the strategy to be used in managing the Funds. It is expected that gains will be realized when prudent. Losses are acceptable if the proposed swap/trade clearly enhances the portfolio yield over the life of the new security on a total return basis.

Reasonable documentation will be maintained to facilitate an audit of the transaction. Losses, if any, will be recognized and recorded based on the transaction date.

### **13.0 BROKER/DEALERS AND FINANCIAL INSTITUTIONS**

The purchase of any authorized investment shall be made either directly from the issuer or from any of the following:

- Institutions licensed by the State of California as a broker/dealer

- Members of a federally-regulated securities exchange
- National or state-chartered banks
- Federal or state savings institutions or associations as defined in Finance Code Section 5102
- Brokerage firms reporting as a primary government dealer to the Federal Reserve Bank

The Treasurer or designee will maintain a current and eligible list of reputable primary and regional dealers, brokers and financial institutions with whom securities trading and placement of funds are authorized. A strong capital base credit worthiness, and, where applicable, a broker/dealer staff experienced in transactions with California local governments are the primary criteria for inclusion on the City of Oakland's approved list.

Approved dealers and brokers shall be limited to primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) and ~~which~~ provide: proof of Financial Industry Regulatory Authority (FINRA) certification; proof of California State registration; and a completed City of Oakland broker/dealer questionnaire. In addition, prior to approval and for every two years thereafter, approved dealers and brokers must provide: an audited financial statement; certification of receipt, review of, and willingness to comply with the current Investment Policy; and certification of compliance with Rule G-37 of the Municipal Securities Rulemaking Board regarding limitations on political contributions to the Mayor or any member of the City Council or to any candidate for these offices.

The Treasurer may remove a firm from the approved list at any time due to: any failure to comply with any of the above criteria; any failure to successfully execute a transaction; any change in broker/dealer staff; or any other action, event, or failure to act which, in the sole discretion of the Treasurer, is materially adverse to the best interests of the City.

**14.0 GENERAL CREDIT QUALITY**

Short-term debt shall be rated at least "A-1" by Standard & Poor's Corporation, "P-1" by Moody's Investor Service, Inc., "F-1" by Fitch. Long-term debt shall be rated in a rating category of at least "A" by Standard & Poor's Corporation, Moody's Investors Service, Inc., or Fitch.

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The minimum credit requirement for each security is further defined within the Permitted Investments section of the policy. If securities which are purchased for the Fund are downgraded below the credit quality required by the Fund. The Treasurer will determine whether to retain or to sell the security. Evaluation of divestiture of securities will be determined on a case-by-case basis.

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**15.0 PERMITTED INVESTMENTS**

The following securities are permissible investments pursuant to Section 53601 of the California Government Code as well as this Investment Policy. Any other investment not specified hereunder shall be made only upon prior approval by the City Council.

**15.1 U. S. Treasury Securities**

Bills, notes and bonds issued by the U.S. Treasury which are direct obligations of the federal government.

- Maximum Maturity: 5 years
- Maximum Portfolio Exposure: 20%\*

- Maximum Issuer Exposure: Prudent person standard applies overall
- Credit Requirement: N.A.

\*20% limit is a result of the Nuclear Free Zone Ordinance, subject also to prior adoption by Council of a waiver for a period not to exceed 60 days allowing investment in U.S. Treasury securities due to specified findings. There is no limitation under the California Government Code

#### 15.2 Federal Agencies and Instrumentalities

Notes and bonds of federal agencies, government-sponsored enterprises and international institutions. Not all are direct obligations of the U. S. Treasury but may involve federal sponsorship and/or guarantees, in some instances.

- Maximum Maturity: 5 years
- Maximum Portfolio Exposure: None
- Maximum Issuer Exposure: Prudent person standard applies overall
- Credit Requirement: N.A.

#### 15.3 Banker's Acceptances (BA)

Bills of exchange or time drafts drawn on and accepted by a commercial bank, typically created from a letter of credit issued in a foreign trade transaction.

- Maximum Maturity: 180 days
- Maximum Portfolio Exposure: 40%
- Maximum Issuer Exposure: 30% of total surplus funds may be in BAs of one commercial bank; maximum 5% per issuer
- Credit Requirement: A1, P1, or F1 or better by two or the three nationally recognized rating services. No rating may be lower than any of the [ratingratings](#) listed above.

#### 15.4 Commercial Paper

A short-term, unsecured promissory note issued by financial and non-financial companies to raise short-term cash. Financial companies issue commercial paper to support their consumer and/or business lending; non-financial companies issue for operating funds.

- Maximum Maturity: [270397](#) days
- Maximum Portfolio Exposure: 40%
- Maximum Issuer Exposure: No more than 10% of the total assets of the investments held by the City may be invested in any one issuer's commercial paper; and maximum 5% per issuer

- Credit Requirement: A1, P1, or F1 or better by two of the three nationally recognized rating services. No rating may be lower than any of the [ratingratings](#) listed above.
- Eligibility Limited to general corporations organized and operating in the United States with assets in excess of \$500 million; and having rating category of "A" or higher ratings for the issuer's debt, other than commercial paper, if any, as provided by NRSRO.

#### 15.5 Asset-Backed Commercial Paper

Asset-Backed Commercial Paper ("ABCP") issued by special purpose corporations ("SPCs") that is supported by credit enhancement facilities (e.g. over-collateralization, letters of credit, surety bonds, etc.)

- Maximum Maturity: 270 days
- Maximum Portfolio Exposure: 25% (Not to exceed 25% of total secured and unsecured CP)
- Maximum Issuer Exposure: No more than 10% of the total assets of the investments held by the City or Agency may be invested in any one issuer's commercial paper; and maximum 5% per issuer
- Credit Requirement: A1, P1, or F1 or better by two or the three nationally recognized rating services. No rating may be lower than any of the [ratingratings](#) listed above.
- Eligibility: Issued by special purpose corporations ("SPC") organized and operating in the United States with assets exceeding \$500 million. Restricted to programs sponsored by commercial banks or finance companies organized and operated in the United States.
- Program must have credit facility that provides at least 100% liquidity
- Serialized ABCP programs are not eligible
- Ratings are to be routinely monitored. The Treasurer is to perform the Treasurer's own due diligence as to creditworthiness.

#### 15.6 Local Government Investment Pools

For local agencies (including counties, cities or other local agencies) that pool money in deposits or investments with other local agencies, [including Joint Powers Authority Pools such as California Asset Management Program \(CAMP\)](#), investments may be made subject to the following:

- Maximum Maturity: N/A
- Maximum Portfolio Exposure: 20%
- NAV Requirement: \$1.00

- Credit Requirement: Top ranking (Rating category of “AAA”) or highest letter and numerical rating provided by at least ~~two~~ one nationally recognized statistical rating organizations
- Must retain an Investment Advisor
- Registered with the SEC with ~~no~~ less than 5 ~~years~~ years’ experience in investing securities as authorized by the Code, and with assets under management in excess of \$500 million
- Fund Composition Comprised of instruments in accordance with the California State Government Code
- Joint Powers authorities (JPA) established pursuant to Section 6509.7 to invest in securities and obligations authorized under 53601 (a)-(q) as long as each member of the JPA has an equal proportional interest in the purchased securities.

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#### 15.7 Medium Term Notes

Corporate Bonds, Corporate Notes and Deposit Notes. Issuers are banks and bank holding companies, thrifts, finance companies, insurance companies and industrial corporations. These are debt obligations that are generally unsecured.

- Maximum Maturity: 5 years (additional limitations based on credit, below)
- Maximum Portfolio Exposure: 30%
- Maximum Issuer Exposure: No more than 5% of the Portfolio shall be invested in any single institution.
- Credit Requirement: Must be Rated A3, A-, or A- or better by two of the three nationally recognized rating services, Moody’s, S&P, or Fitch, respectively. No Rating may be lower than any of the Rating listed above and should have minimum “A” rating category or its equivalent or better.
- Eligibility: Limited to corporations organized and operating within the United States or depository institutions licensed by the United States or any state and operating within the United States

#### 15.8 Negotiable Certificates of Deposit

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Issued by commercial banks and thrifts, and foreign banks (Yankee CD's).

- Maximum Maturity: 5 years
- Maximum Portfolio Exposure: 30%
- Maximum Issuer Exposure: Prudent person standard applies overall; maximum 5% per issuer
- Credit Requirement: Top 3 rating categories, A, A2 or A (S&P/Moody's/Fitch) being the lowest, if rated by S&P, Moody's or Fitch.

### 15.9 Repurchase Agreements

- A contractual transaction between the investor and a bank/dealer to exchange cash for temporary ownership or control of securities/collateral with an agreement by the bank/dealer to repurchase the securities on a future date. Primarily used as an overnight investment vehicle.
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- Maximum Maturity: 360 days
- Maximum Portfolio Exposure: None
- Maximum Dealer Exposure: Prudent person standard applies overall; maximum 5% per issuer
- Collateral Requirements: Collateral limited to Treasury and Agency securities; must be 102% or greater
- Mark-to-market: Daily
- Eligibility: Limited to primary dealers of the Federal Reserve Bank of New York, for which a current Master Repurchase Agreement has been executed with the City.

### 15.10 Reverse Repurchase Agreements

The mirror image of a repurchase agreement. Used as a source of liquidity when there is a mismatch of cash flow requirement and scheduled maturities. A mechanism to avoid liquidating securities for immediate cash needs. Restricted to securities owned for a minimum of 30 days prior to settlement of the repurchase agreement.

This strategy should be used solely for liquidity and not for arbitrage or leverage purposes.

- Maximum Maturity: 92 days (unless a written agreement guaranteeing the earnings or spread for the entire period)
- Maximum Portfolio Exposure: 20% of the base value of the portfolio
- Eligibility: Limited to primary dealers of the Federal Reserve Bank of New York or nationally or State chartered bank with significant banking relationship with the City.

### 15.11 Secured Obligations and Agreements

Obligations, including notes or bonds, collateralized at all times in accordance with Sections 53651 and 53652 of the Government Code.

- Maximum Maturity: 2 years
- Maximum Portfolio Exposure: 20%
- Maximum Issued/Provider Exposure: Prudent person standard applies overall; maximum 5% per issue

- Collateral Requirements: Collateral limited to Treasury and Agency securities; must be 102% or greater
- Mark-to-market: Daily
- Credit Requirement: Issuer/Provider rated in "AA" category by at least one national rating agency; or agreement guaranteed by an "AA" company
- Eligibility: Banks, insurance companies, insurance holding companies and other financial institutions

#### 15.12 Certificates of Deposit

Time deposits, which are non-negotiable, are issued most commonly by commercial banks, savings and loans and credit unions with federal deposit insurance available for amounts up to \$250,000. Deposits in banks, savings and loan associations and federal credit unions with a branch office within Oakland will be made (to the extent permissible by State and Federal law or rulings) pursuant to the following conditions:

- Maximum Maturity: 360 days
- Maximum Portfolio Exposure: Prudent person standard applies.
- Maximum Issuer Exposure: Prudent person standard applies.
- Credit Requirement: For deposits over \$250,000: Top 3 rating categories - A, A2 or A (S&P/Moody's/Fitch) being the lowest, if rated by S&P, Moody's or Fitch.
- Deposit Limit: For federally insured deposits of \$250,000 or less: No minimum credit rating required. City's deposits cannot exceed the total shareholder's equity of the institution. For deposits over \$250,000, it must be collateralized.
- Depository Selection: Highest available rate of interest
- Institution Requirements: Most recent Annual Report

Pursuant to Government code 53637, the City is prohibited from investing in negotiable certificates of deposit of a state or federal credit union if a member of the legislative body or any person with decision-making authority serves on the board of directors or committee.

#### 15.13 Money Market Mutual Funds

Regulated by the SEC, these funds operate under strict maturity and diversification guidelines. These funds have no federal guarantee but are viewed as a very safe short-term cash investment.

- Maximum Maturity: N/A
- Maximum Portfolio Exposure: 20%
- NAV Requirement: \$1.00

- Credit Requirement: Top ranking or highest letter and numerical rating provided by at least two nationally recognized statistical rating organizations
- Investment Advisor Alternative to Ratings: Registered with the SEC with not less than 5 years experience in investing securities as authorized by the Code, and with assets under management in excess of \$500 million
- Fund Composition: Comprised of instruments in accordance with the California State Government Code

15.14 State Investment Pool (Local Agency Investment Fund)

A pooled investment fund overseen by the State Treasurer, which operates like a money market fund, but is for the exclusive benefit of governmental entities within the state. Maximum currently authorized by Local Agency Investment Fund (LAIF) is \$75 million, which is subject to change. The LAIF is in trust in the custody of the State Treasurer. The City's right to withdraw its deposited monies from LAIF is not contingent upon the State's failure to adopt a State Budget.

- Maximum Maturity: ~~\_\_\_\_\_~~; N/A
- Maximum Portfolio Exposure: ~~\_\_\_\_\_~~; None

15.15 Local City/Agency Bonds

Bonds issued by the City of Oakland, or any department, board, agency or authority of the City.

- Maximum Maturity: 5 years
- Maximum Portfolio Exposure: None
- Maximum Issuer Exposure: Prudent person standard applies overall; maximum 5% per issuer
- Credit Requirement: Minimum Rating Category of "A" or better

15.16 State of California Obligations and Others

State of California and any other of the 49 United States registered state warrants, treasury notes, or bonds issued by a State.

- Maximum Maturity: 5 years
- Maximum Portfolio Exposure: None
- Maximum Issuer Exposure: Prudent person standard applies overall; maximum 5% per issuer
- Credit Requirement: Prudent person standard applies

15.17 Other Local Agency Bonds

Bonds, notes, warrants or other ~~evidences~~evidence of indebtedness of any local agency with the state.

- Maximum Maturity: 5 years
- Maximum Portfolio Exposure: None
- Maximum Issuer Exposure: Prudent person standard applies overall; maximum 5% per issuer
- Credit Requirement: Minimum Rating Category of “A” or better

15.18 Deposits- Private Placement

Prudent to California Government Code Section 53601.8 and 53635.8, local agencies are authorized to invest their surplus funds in deposits, certificates of deposits including negotiable ~~certificates~~ ~~certificates~~ of deposits at a commercial or saving bank, saving and loan, or credit union using a private sector deposit placement service.

- Maximum Portfolio Exposure: 50%
- Maximum Issuer Exposure: maximum 10% per private sector placement entity
- Credit Requirement: Prudent person standard applies
- Sunset on January 1, 2031

15.19 Supranationals

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U.S dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by any of the supranational institutions such as International Bank of Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the Inter-American Development Bank (IADB). Eligible for purchase and sale within the United States.

- Maximum Maturity: 5 years
- Maximum Portfolio Exposure: 30%
- Credit Requirement: Minimum Rating Category of “AA” or better by NRSRO

15.20 Public Bank Obligations

Any commercial paper, debt securities, or other obligations of a public bank as defined in California Government Code Section 57600-57607.

- Maximum Maturity: 5 ~~year~~ years
- Maximum Portfolio Exposure: N.A
- Credit Requirement: Prudent Standard Applies

**16.0 MAXIMUM MATURITIES**

The City's Investment Policy shall be structured to provide that sufficient funds from investments are available to meet City's anticipated cash need. No investments will have a maturity of more than 5 years from its settlement date. Purchase of investments with forward settlement date exceeding 45 days from time of investment is prohibited.

**17.0 GLOSSARY**

Definitions of investment-related terms are listed.

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## GLOSSARY

**ACCRETION:** Adjustment of the difference between the prices of a bond bought at an original discount and the par value of the bond.

**AGENCIES:** Federal agency securities and/or Government-sponsored enterprises (GSEs), also known as U.S. Government instrumentalities. Securities issued by Government National Mortgage Association (GNMA) are considered true agency securities, backed by the full faith and credit of the U.S. Government. GSEs are financial intermediaries established by the federal government to fund loans to certain groups of borrowers, for example homeowners, farmers and students and are privately owned corporations with a public purpose. The most common GSEs are Federal Farm Credit System Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Association, and Federal National Mortgage Association.

**AMORTIZATION:** Accounting procedure that gradually reduces the cost value of a limited life or intangible asset through periodic charges to income. For fixed assets, the term used is “depreciation”. It is common practice to amortize any premium over par value paid in the purchase of preferred stock or bond investments.

**ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR):** The official annual financial report for the City. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

**▲** **APPRECIATION:** Increase in the value of an asset such as a stock bond, commodity or real estate.

**ASKED PRICE:** The price a broker/dealer offers to sell securities.

**ASSET BACKED:** A type of security that is secured by receivables, such as credit card and auto loans. These securities typically pay principal and interest monthly.

**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. This money market instrument is used to finance international trade.

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

**BENCHMARK:** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investment.

**BID PRICE:** The price a broker/dealer offers to purchase securities.

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**BOND:** A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

**BOOK VALUE:** The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

**BROKER:** A broker acts as an intermediary between a buyer and seller for a commission and does not trade for his/her own risk and account or inventory.

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

**CAPITAL :** wealth in the form of money or other assets owned by a person or organization or available or contributed for a particular purpose such as starting a company or investing

**CASH FLOW:** An analysis of all changes that affect the cash account during a specified period.

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

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

**COLLATERALIZED MORTGAGE OBLIGATION (CMO):** A type of mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

**COMMERCIAL PAPER:** Short-term, unsecured, negotiable promissory notes of corporations.

~~**ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR):** The official annual financial report for the City. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).~~

~~**CONCENTRATION :** Percentage in one type of security or sector~~

**CORPORATE NOTE:** Debt instrument issued by a private corporation.

**COUPON:** The annual rate at which a bond pays interest.

**CREDIT RATINGS:** A grade given to a debt instrument that indicates its credit quality. Private independent rating services such as Standard & Poor's, Moody's and Fitch provide these

**CREDIT RISK:** The risk that an obligation will not be paid and a loss will result due to a failure of the issuer of a security.

**CUSIP:** Stands for Committee on Uniform Securities Identification Procedures. A CUSIP number identifies most securities, including: stocks of all registered U.S. and Canadian companies, and U.S. government and municipal bonds. The CUSIP system—owned by the American Bankers Association and operated by Standard & Poor's—facilitates the clearing and settlement process of securities. The

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number consists of nine characters (including letters and numbers) that uniquely identify a company or issuer and the type of security.

**CURRENT YIELD:** The annual interest on an investment divided by the current market value. Since the 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.

**CUSTODIAN:** A bank or other financial institution that keeps custody of stock certificates and other assets.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own risk and account or inventory.

**DEBENTURES:** A bond secured only by the general credit of the issuers.

**DELIVERY VERSUS PAYMENT (DVP):** Delivery of securities with a simultaneous exchange of money for the securities.

**DERIVATIVE:** A financial instrument that is based on, or derived from, some underlying asset, reference date, or index.

**DIRECT ISSUER:** Issuer markets its own paper directly to the investor without use of an intermediary.

**DISCOUNT:** The difference between the cost of a security and its value at maturity when quoted at lower than face value.

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

**DURATION:** A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. Duration measures the price sensitivity of a bond to changes in interest rates.

**FACE VALUE:** The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

**FAIR VALUE:** The amount at which a security could be exchanged between willing parties, other than in a forced or liquidation sale. If a market price is available, the fair value is equal to the market value.

**FANNIE MAE:** Trade name for the Federal National Mortgage Association (FNMA), a U.S. Government sponsored enterprise.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that provides insurance on bank deposits, guaranteeing deposits to a set limit per account, currently \$250,000.

**FEDERAL FARM CREDIT BANK (FFCB):** Government-sponsored enterprise that consolidates the financing activities of the Federal Land Banks, the Federal Intermediate Credit Banks and the Banks for Cooperatives. Its securities do not carry direct U.S. government guarantees.

**FEDERAL FUNDS RATE:** The rate of interest at which Federal funds are traded. This rate is considered to be the most sensitive indicator of the direction of interest rates, as it is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL GOVERNMENT AGENCY SECURITIES:** Federal Agency or United States government-sponsored enterprise 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.

**FEDERAL HOME LOAN BANKS (FHLB):** Government sponsored enterprise (currently made up of 12 regional banks) that regulates and lends funds and provides correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. Although the banks operate under federal charter with government supervision, the securities are not guaranteed by the U. S. Government.

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC):** Government sponsored enterprise that helps maintain the availability of mortgage credit for residential housing. FHLMC finances these operations by marketing guaranteed mortgage certificates and mortgage participation certificates. Its discount notes and bonds do not carry direct U.S. government guarantees.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA):** Government sponsored enterprise that is the largest single provider of residential mortgage funds in the United States. FNMA 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.

**FEDERAL OPEN MARKET COMMITTEE (FOMC):** A committee of the Federal Reserve Board, which establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

**FEDERAL RESERVE SYSTEM:** The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks and about 5,700 commercial banks that are members.

**FED WIRE:** A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

**FREDDIE MAC:** Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. government sponsored enterprise.

**GINNIE MAE:** Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

**GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB):** A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

**GUARANTEED INVESTMENT CONTRACTS (GICS):** An agreement acknowledging receipt of funds, for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

**INTEREST RATE:** The annual yield earned on an investment, expressed as a percentage.

**INTEREST RATE RISK:** The risk of gain or loss in market values of securities due to changes in interest-rate levels. For example, rising interest rates will cause the market value of portfolio securities to decline.

**INVESTMENT AGREEMENTS:** A contract providing for the lending of issuer funds to a financial institution which agrees to repay the funds with interest under predetermined specifications.

**INVESTMENT GRADE (LONG TERM RATINGS):** The minimum, high quality ratings for long term debt such as corporate notes. Investment Grade ratings are as follows: A3 (Moody's), A- (S&P), and A- (Fitch).

**INVESTMENT PORTFOLIO:** A collection of securities held by a bank, individual, institution or government agency for investment purposes.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash with minimum risk of principal.

**LOCAL AGENCY INVESTMENT FUND (LAIF):** An investment pool sponsored by the State of California and administered/managed by the State Treasurer. Local government units, with consent of the governing body of that agency, may voluntarily deposit surplus funds for the purpose of investment. Interest earned is distributed by the State Controller to the participating governmental agencies on a quarterly basis.

**LOCAL AGENCY INVESTMENT POOL:** A pooled investment vehicle sponsored by a local agency or a group of local agencies for use by other local agencies.

**MARKET RISK:** The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates. Systematic risk of a security that is common to all securities of the same general class (stocks, bonds, notes, money market instruments) and cannot be eliminated by diversification (which may be used to eliminate non-systematic risk).

**MARKET VALUE:** The price at which a security is currently being sold in the market. See FAIR VALUE.

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

**MATURITY:** The date that the principal or stated value of a debt instrument becomes due and payable.

**MEDIUM-TERM NOTES (MTNs):** Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts either on 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. This is a measure of a portfolio's or security's exposure to market risk.

**MONEY MARKET:** The market in which short term debt instruments (Treasury Bills, Discount Notes, Commercial Paper, Banker's Acceptances and Negotiable Certificates of Deposit) are issued and traded.

**MORTGAGED BACKED SECURITIES:** A type of security that is secured by a mortgage or collection of mortgages. These securities typically pay principal and interest monthly.

**MUNICIPAL BONDS:** Debt obligations issued by states and local governments and their agencies, including cities, counties, government retirement plans, school districts, state universities, sewer districts, municipally owned utilities and authorities running bridges, airports and other transportation facilities

**MUTUAL FUND:** An entity that pools money and can invest in a variety of securities which are specifically defined in the fund's prospectus.

**NEGOTIABLE CERTIFICATE OF DEPOSIT:** A large denomination certificate of deposit which can be sold in the open market prior to maturity.

**NET PORTFOLIO YIELD:** Calculation in which the 365-day basis equals the annualized percentage of the sum of all Net Earning during the period divided by the sum of all Average Daily Portfolio Balances.

**NATIONALLY RECOGNIZED RATING ORGANIZATION (NRSRO):** is a credit rating agency that issues credit rating that U.S Securities and Exchange Commission permits other financial firms to use for certain regulatory purposes.

**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.

**PAR VALUE:** The amount of principal which must be paid at maturity. Also referred to as the face amount of a bond. See FACE VALUE.

**PORTFOLIO:** The collection of securities held by an individual or institution.

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

**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. These dealers are authorized to buy and sell government securities in direct dealing with the Federal Reserve Bank of New York in its execution of market operations to carry out U.S. monetary policy. Such dealers must be qualified in terms of reputation, capacity, and adequacy of staff and facilities.

**PRIME (SHORT TERM RATING):** High quality ratings for short term debt such as commercial paper. Prime ratings are as follows: P1 (Moody's), A1 (S&P), and F1 (Fitch).

**PRINCIPAL:** The face value or par value of a debt instrument, or the amount of capital invested in a given security.

**PRIVATE PLACEMENTS:** Securities that do not have to be registered with the Securities and Exchange Commission because they are offered to a limited number of sophisticated investors.

**PROSPECTUS:** A legal document that must be provided to any prospective purchaser of a new securities offering registered with the Securities and Exchange Commission that typically includes information on the issuer, the issuer’s business, the proposed use of proceeds, the experience of the issuer’s management, and certain certified financial statements (also known as an “official statement”).

**PRUDENT INVESTOR STANDARD:** A standard of conduct for fiduciaries. Investments shall be made with judgment and care--under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

**PUBLIC BANK:** A corporation, organized as either a nonprofit mutual benefit corporation or a nonprofit public benefit corporation for the purpose of engaging in the commercial banking business or industrial banking business, that is wholly owned by a local agency, as specified, local agencies, or a joint powers authority.

**PUBLIC DEPOSITS:** A bank that is qualified under California law to accept a deposit of public funds.

**PURCHASE DATE:** The date in which a security is purchased for settlement on that or a later date. Also known as the “trade date”.

**RATE OF RETURN:** 1) The yield which can be attained on a security based on its purchase price or its current market price. 2) Income earned on an investment, expressed as a percentage of the cost of the investment.

**RATING SCALE:**

Moody's		S&P		Fitch		Rating description	
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term		
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime	Investment-grade
Aa1		AA+		AA+		High grade	
Aa2		AA		AA			
Aa3		AA-		AA-			
A1		A+	A-1	A+	F1	Upper medium grade	
A2		A		A			
A3	P-2	A-	A-2	A-	F2		
Baa1		BBB+		BBB+		Lower medium grade	
Baa2	P-3	BBB	A-3	BBB	F3		
Baa3		BBB-		BBB-			
Ba1	Not prime	BB+	B	BB+	B	Non-investment grade speculative	Non-investment grade aka high-yield
Ba2		BB		BB			
Ba3		BB-		BB-			
B1		B+		B+		Highly speculative	

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B2		B		B		bonds aka junk bonds	
B3		B-		B-			
Caa1		CCC+	C	CCC	C		Substantial risks
Caa2		CCC					Extremely speculative
Caa3		CCC-					Default imminent with little prospect for recovery
Ca		CC					
C		C					
/		D	/	/	In default		
				DDD			
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**REALIZED GAIN (OR LOSS):** Gain or loss resulting from the sale or disposal of a security.

**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 (RP or REPO):** A transaction in which a counterparty or the holder of securities (e.g. investment dealer) sells these securities to an investor (e.g. the City) with a simultaneous agreement to repurchase them at a fixed date. The security "buyer" (e.g. the City) in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the "buyer" 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 REPURCHASE AGREEMENT (REVERSE REPO):** The opposite of a repurchase agreement. A reverse repo is a transaction in which the City sells securities to a counterparty (e.g. investment dealer) and agrees to repurchase the securities from the counterparty at a fixed date. The counterparty in effect lends the seller (e.g. the City) money for the period of the agreement with terms of the agreement structured to compensate the buyer.

**RISK:** Degree of uncertainty of return on an asset.

**SAFEKEEPING:** A service which banks offer to clients for a fee, where physical securities are held in the bank's vault for protection and book-entry securities are on record with the Federal Reserve Bank or Depository Trust Company in the bank's name for the benefit of the client. As agent for the client, the safekeeping bank settles securities transactions, collects coupon payments, and redeems securities at maturity or on call date, if called.

**SECURITIES AND EXCHANGE COMMISSION (SEC):** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SECONDARY MARKET:** A market for the repurchase and resale of outstanding issues following the initial distribution.

**SECURITIES:** Investment instruments such as notes, bonds, stocks, money market instruments and other instruments of indebtedness or equity.

**SETTLEMENT DATE:** The date on which a trade is cleared by delivery of securities against funds.

**SPREAD:** The difference between two figures or percentages. It may be the difference between the bid (price at which a prospective buyer offers to pay) and asked (price at which an owner offers to sell) prices of a quote, or between the amount paid when bought and the amount received when sold.

**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.

**SUPRANATIONALS:** are international institutions that provide development financing, advisory services and/or financial services to their member countries to achieve the overall goal of improving living standards through sustainable economic growth. The Government Code allows local agencies to purchase the 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.

**TIME DEPOSIT:** A deposit with a California bank or savings and loan association for a specific amount and with a specific maturity date and interest rate. Deposits of up to \$250,000 are insured by FDIC. Deposits over \$250,000 are collateralized above the insurance with either government securities (at 110% of par value), first trust deeds (at 150% of par value), or letters of credit (at 105% of par value).

**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, and includes interest earnings and realized and unrealized gains and losses on the portfolio. For bonds held to maturity, total return is the yield to maturity.

**TRUSTEE OR TRUST COMPANY OR TRUST DEPARTMENT OF A BANK:** A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

**UNDERWRITER:** A dealer which purchases a new issue of municipal securities for resale.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission requirement that member firms as well as ~~nonmember~~non-member broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 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.

**U.S. GOVERNMENT AGENCY SECURITIES:** Securities issued by U.S. government agencies, most of which are secured only by the credit worthiness of the particular agency. See AGENCIES.

**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 the benchmark for interest rates on all other securities in the U.S. The Treasury issues both discounted securities and fixed coupon notes and bonds. The income from Treasury securities is exempt from state and local, but not federal, taxes.

**TREASURY BILLS:** Securities issued at a discount with initial maturities of one year or less. The Treasury currently issues three-month and six-month Treasury bills at regular weekly auctions. It also issues very short-term “cash management” bills as needed to smooth out cash flows.

**TREASURY NOTES:** Intermediate-term coupon-bearing securities with initial maturities of one year to ten years.

**TREASURY BOND:** Long-term coupon-bearing securities with initial maturities of ten years or longer.

**UNREALIZED GAIN (OR LOSS):** Gain or loss that has not become actual. It becomes a realized gain (or loss) when the security in which there is a gain or loss is actually sold. See REALIZED GAIN (OR LOSS).

**VOLATILITY:** Characteristic of a security, commodity or market to rise or fall sharply in price within a short-term period.

**WEIGHTED AVERAGE MATURITY:** The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

**Yankee CD's:** A type of certificate of deposit that is issued in the United States by a branch of a foreign bank. Yankee CD are denominated in U.S dollars and are used by foreign banks to raise capital from U.S investors.

**YIELD:** The annual rate of return on an investment expressed as a percentage of the investment. See CURRENT YIELD; YIELD TO MATURITY.

**YIELD CURVE:** Graph showing the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

**YIELD TO MATURITY:** Concept used to determine the rate of return if an investment is held to maturity. It takes into account purchase price, redemption value, time to maturity, coupon yield, and the time between interest payments. It is the rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.