

AGENDA

BOARD OF DIRECTORS FINANCE COMMITTEE MEETING
DELTA DIABLO
(a California Special District)

PLANT OPERATIONS CENTER CONFERENCE ROOM
2600 PITTSBURG-ANTIOCH HIGHWAY
ANTIOCH, CA 94509

THURSDAY, FEBRUARY 6, 2020
10:30 A.M.

Persons who wish to address the board during Public Comment or with respect to an item on the Agenda will be limited to three (3) minutes. The Board Chair may reduce the amount of time allotted per speaker at the beginning of each Item or Public Comment period depending on the number of speakers and the business of the day. Your patience is appreciated. A break may be called, or an item may be taken out of order, at the discretion of the Board Chair.

A. PUBLIC COMMENTS

**B. REVIEW AND COMMENT ON PROPOSED MODIFICATIONS TO
ADMINISTRATIVE HANDBOOK POLICY NO. 3020, INVESTMENT OF
DISTRICT FUNDS** *(Carol Margetich)*

C. ADJOURNMENT


The District will provide reasonable accommodations for persons with disabilities who plan to participate in Board (or committee) meetings by contacting the Secretary to the Board 24-hours prior to the scheduled meeting at (925) 756-1927. Disclosable public records related to an open session item on a regular meeting agenda and distributed by the District to a majority of members of the Board of Directors less than 72 hours prior to that meeting are available for public inspection at the Treatment Plant Building located at 2500 Pittsburg-Antioch Highway, Antioch, CA 94509 during normal working business hours.



MEMORANDUM

Date: February 6, 2020

To: Sean Wright, Chair, Finance Committee

From: Carol S. Margetich, Business Services Director 

SUBJECT: REVIEW AND COMMENT ON PROPOSED MODIFICATIONS TO ADMINISTRATIVE HANDBOOK POLICY NO. 3020, INVESTMENT OF DISTRICT FUNDS

Background Information

The District's current Investment Policy (Policy) was adopted by the Board of Directors on February 13, 2019 to incorporate recommended clarifications to further define allowable investments and qualifications for investment brokers and dealers with whom the District conducts business. The District's investment advisor (PFM Asset Management [PFM]) recently conducted its annual review of the Policy to ensure it continues to meet legal requirements and best practices for management of public funds.

California Government Code (GC) Section 53646(a)(2) requires consideration by the Board if changes are proposed to the Policy. Staff typically submits any proposed revisions to the Finance Committee for review and incorporation of comments received prior to consideration of the revised Policy by the full Board. To ensure full transparency, the Board currently reviews the Policy during a public meeting on an annual basis even if there are no proposed changes. The following outlines legal requirements for review by the Board:

GC Section 53646(a)(2): In the case of any other local agency, the treasurer or chief fiscal officer of the local agency may annually render to the legislative body of that local agency and any oversight committee of that local agency a statement of investment policy, which the legislative body of the local agency shall consider at a public meeting. Any change in the policy shall also be considered by the legislative body of the local agency at a public meeting.

All District funds governed by the Policy are invested in accordance with GC requirements. The primary objectives of the Policy, in priority order, are to:

1. Ensure safety of principal invested (Safety),
2. Provide sufficient liquidity to meet ongoing cash flow requirements (Liquidity), and
3. Ensure a return on investment that exceeds the State of California's Local Agency Investment Fund (LAIF) and is comparable to the six-month Treasury return (Yield) within the constraints of the preceding two objectives.

Sean Wright, Chair, Finance Committee

February 6, 2020

REVIEW AND COMMENT ON PROPOSED MODIFICATIONS TO ADMINISTRATIVE HANDBOOK POLICY NO. 3020, INVESTMENT OF DISTRICT FUNDS

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In addition, the Policy requires diversification of the District's investment portfolio to minimize investment risks. Authorized instruments include: U.S. Treasuries, Federal Agency Securities, Bonds issued by the State of California or Any Local Agency, Banker's Acceptances, Commercial Paper, U.S. Corporate Debt, Negotiable Certificates of Deposit (CDs), Supranationals, LAIF, Local Government Investment Pools (LGIP), Joint Powers Authorities (JPAs), insured savings account or money market accounts, and Money Market Mutual Funds. Bonds, Commercial Paper, and Corporate debt are required to have very high credit ratings from one or more rating agencies.

Analysis

GC Section 53646(a)(2) allows for the presentation of a statement of investment policy to the Board for consideration during a public meeting on an annual basis, even if there are no proposed changes, but does not require it. Therefore, staff recommends a minor change to the Policy to eliminate the requirement to submit the Policy to the Board for consideration even if there are no changes to the document.

In addition, to further diversify the District's portfolio, staff proposes minor changes to the Policy with the addition of two permissible investment authorized instruments, Mortgage-Backed Securities and Asset-Backed Securities allowable under GC Section 53601. High-quality mortgage-backed and asset-backed securities offer additional return potential on a risk-adjusted basis relative to U.S. Treasuries and Federal Agency securities. Over longer time horizons, both sectors have been strong performers relative to government options, while maintaining high credit quality consistent with GC requirements. Credit ratings for permitted mortgage-backed securities are currently "AA" by S&P and "AAA" by Moody's, while permitted asset-backed securities are rated "AAA" by Moody's and/or Fitch, making them an attractive alternative to corporate securities when spreads are at levels that warrant adding allocations to the asset-backed sector. The use of mortgage- and asset-backed securities is consistent with the Policy's primary objectives of Safety, Liquidity, and Yield, albeit with a slightly lower liquidity profile compared to U.S. Treasuries and Federal Agency securities.

PFM reviewed and assisted in drafting the Policy to ensure it meets legal requirements, as well as best practices for the management of government funds. PFM has advised the District that the Policy is compliant with state law. Should the Finance Committee concur with the proposed revisions, the Policy would be presented to the Board of Directors for consideration at its meeting on February 12, 2020.

Financial Impact

As specified in the Policy, the District's objective is to earn a return on investments that exceeds LAIF and is comparable to the six-month Treasury index. The District's investments are designed to meet this rate-of-return while maintaining sufficient liquidity to meet the District's ongoing cash flow requirements. Interest income in the Wastewater Operations and Maintenance, Capital Asset, and Capital Asset Replacement funds are applied to costs that otherwise would be paid by Sewer Service Charges.

Sean Wright, Chair, Finance Committee

February 6, 2020

REVIEW AND COMMENT ON PROPOSED MODIFICATIONS TO ADMINISTRATIVE
HANDBOOK POLICY NO. 3020, INVESTMENT OF DISTRICT FUNDS

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Attachment

Proposed Modifications to Administrative Handbook Policy No. 3020, *Investment of District
Funds* (to supersede policy dated February 13, 2019)

/CSM

cc: BRD.01-ACTS-
Chron File

Delta Diablo

ADMINISTRATIVE POLICY HANDBOOK

POLICY TITLE: Investment of District Funds

POLICY NUMBER: 3020

PROCEDURE: N/A

DATE ADOPTED: February 12, 2020 (*Supersedes 2/13/19*)

Sean Wright
Board Secretary

3020.1 Introduction

The purpose of this policy is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and organize and formalize investment-related activities. The investment policies and practices of Delta Diablo (District) are based on state law and prudent money management. All funds governed by this policy will be invested in accordance with this policy and Article 2 of Chapter 4 of the California Government Code Sections 53600 through 53659, the authority governing investments for the District.

3020.2 Scope

This policy applies to all financial assets of the District under its direct control and authority and accounted for in the annual Basic Financial Statements, unless explicitly excluded. Excluded funds may have different criteria or legal bases related to allowed investments.

Proceeds of debt issuances are governed by provisions of their specific bond indentures or resolutions. If the bond documents are silent as to the permitted investments, bond proceeds shall be invested in accordance with investment objectives of this policy. The identification of alternatives by the Board of Directors shall follow the Objectives of this policy.

This policy does not cover funds held by retirement systems, the Deferred Compensation program, or the Other Post-Employment Benefits (OPEB) Trust.

3020.3 Objectives

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

- 3020.3.1** Safety. Safety of principal is the foremost objective of the investment program. District's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.
- 3020.3.2** Liquidity. The District's investment portfolio will remain sufficiently liquid to enable the District to meet its cash flow requirements.
- 3020.3.3** Return on Investment. The District's investment portfolio shall be designed with the objective of attaining a rate-of-return on its investments that exceeds the Local Agency

Investment Fund (LAIF) and is comparable to the six-month Treasury index consistent with the constraints imposed by the prevailing economic conditions and by its safety objective and cash flow considerations.

In a diversified portfolio, it must be recognized that occasional measured losses are inevitable and must be considered within the context of the overall portfolio's investment return, provided diversification has been implemented.

- 3020.3.4** Benchmark for Investment. The performance of the portfolio will be measured against a benchmark with similar characteristics to the District's portfolio. This benchmark will be used to provide a comparison of risk and return in evaluating the District's investment strategy over time.
- 3020.3.5** Diversification. The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. This shall also conform with applicable sections of the Government Code.
- 3020.3.6** Prudence. All persons authorized to make investment decisions on behalf of the District are trustees and therefore fiduciaries subject to the "prudent investor" standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence and diligence under circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the District 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 District.

Authorized individuals acting in accordance with this Policy and written 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 a timely fashion. "Timely" reporting means notification of the General Manager and the Board within five business days of any determination that a deviation exists or has occurred.

3020.4 Delegation of Authority

Management responsibility for the investment program is hereby delegated to the General Manager. This delegation is a factor that may be reviewed as part of the annual presentation of an investment policy to the Board of Directors. The General Manager may delegate to appropriately experienced subordinate staff, the responsibility for all transactions undertaken in conformance with this policy. The General Manager shall assure the establishment of a system of controls to regulate the activities of subordinate officials and their procedures. District staff shall follow the policy and established procedures and such other written instructions as are provided.

The Finance Committee will periodically review the implementation of the District's investment program to determine whether it is consistent with the investment policy as approved by the Board. The Committee shall review annually and as otherwise needed to determine general strategies and monitor results.

3020.5. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. Officers and employees involved in the investment process shall abide by the District's Conflict of Interest Code, California Government Code Section 1090 et seq. and the California Political Reform Act (California Government Code Section 81000 et seq.) as it exists now or may be modified by the State Legislature in the future.

3020.6 Internal Controls

The General Manager shall assure the development and implementation of such administrative procedures and internal controls which are considered prudent, given the size of the organization and the complexity of investments. The internal controls will be reviewed with the independent auditor. The controls shall be designed to prevent employee error, misrepresentations by third parties, or imprudent actions by employees or officers of the District.

3020.7 Qualified Financial Institutions and Broker/Dealers

The District shall transact investment business only with banks, savings and loans, and registered securities dealers. All broker/dealers should be dealers regularly reporting to the Federal Reserve Bank and shall maintain an office in the State of California. The District will solicit multiple bids and offers on investment transactions from the District's approved broker/dealers. If an investment adviser is used, they may use their own list of approved broker/dealers and financial institutions for investment purposes. All financial institutions and broker/dealers who desire to become bidders for investment transactions must provide the District with the following:

- Audited financial statements
- Three local government references, preferably California special districts
- Proof of National Association of Securities Dealers' certification
- Proof of California registration
- Certification of having read and agreeing to abide by the District Investment Policy

A periodic review of the financial condition and registrations of approved financial institutions and broker/dealers shall be conducted, including recertification of having read and agreeing to abide by the District's investment policy.

3020.8 Investments

California Government Code Section 53601 governs the investments permitted for purchase by the District. Within the investments permitted by Code, the District seeks to further restrict eligible investment to the investments listed under Authorized Instruments below. Percentage limitations, where indicated, apply at the time of purchase. Rating requirements where indicated, apply at the time of purchase. In the event a security held by the District is subject to a rating change that brings it below the minimum specified rating requirement, the Business Services Director shall notify the General Manager and the Board of the change. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the rate drop, prognosis for recovery or further rate drops, and the market price of the security.

Authorized Instruments

- 3020.8.1** U.S. Treasuries. Government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest.
- 3020.8.2** Federal 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.
- 3020.8.3** State of California or any local agency within the State. Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled or operated by the state or any local agency or by a department, board, agency or authority of the state or any local agency; provided that the obligations are rated in one of the two highest categories by one or more nationally-recognized statistical rating organization (NRSRO).
- 3020.8.4** Bankers' Acceptances. Bankers' acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System. Purchases of bankers' acceptances may not exceed 180 days maturity. Eligible banker's acceptances are restricted to issuing financial institutions with short-term paper rated in the highest category by one or more NRSROs. Investments in banker's acceptances are further limited to 40 percent of the District's investment portfolio with no more than 30 percent invested in the bankers' acceptances of any one commercial bank.
- 3020.8.5** Commercial Paper. Commercial paper rated in the highest category by one or more NRSROs. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):
 - 3020.8.5.1** The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation, (B) Has total assets in excess of five hundred million dollars (\$500,000,000), and (C) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by a NRSRO.

3020.8.5.2 The entity meets the following criteria: (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company, (B) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond, and (C) Has commercial paper that is rated A-1” and/or “P-1” or its equivalent or higher by a NRSRO.

Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation. Investments in commercial paper are limited to a maximum of 25 percent of the District’s investment portfolio.

3020.8.6 U.S. Corporate Debt. Medium-term corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes shall be rated in a rating category “A” or its equivalent or better by an NRSRO.

Purchase of medium-term corporate notes may not exceed 30 percent of the District’s investment portfolio.

3020.8.7 Negotiable Certificates of Deposit. As authorized in Government Code Section 53601(i), no more than 30 percent of the District’s investment portfolio may be invested in negotiable certificates of deposit issued by a nationally or state-chartered bank, a state or federal savings association, a state or federal credit union, or by a state-licensed branch of a foreign bank. The District may not invest in certificates of deposit issued by a state or federal credit union if any member of the District Board, General Manager, or any other employee with investment decision-making authority also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the certificate of deposit.

Purchase of negotiable certificates of deposit may not exceed 30 percent of the District’s investment portfolio and are limited to a maximum maturity of five years.

3020.8.8 Supranationals. The District may invest in 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 remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of “AA” or its equivalent or better by an NRSRO.

Purchases of supranationals shall not exceed 30 percent of the agency’s monies that may be invested pursuant to this section.

- 3020.8.9** State of California’s Local Agency Investment Fund (LAIF). The District may invest in LAIF. Investment in each LAIF account may not exceed the current approved maximum deposit allowed by LAIF.
- 3020.8.10** Local Government Investment Pools (LGIP). Upon approval of the Board of Directors by adoption of a Resolution the District may participate in other public agency investment pools, which serve to invest public agency funds in conformance with applicable California law and are rated “AAA” by one or more NRSROs. Participation in such a pool shall be consistent with the objectives stated as part of this policy.
- 3020.8.11** Shares of beneficial interest issued by a joint powers authority (JPA). Organized pursuant to Section 6509.7 that invests in the securities and obligations authorized by subdivisions (a) to (q) of California Government Code Section 53601, inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the JPA. To be eligible under this section, the JPA issuing the shares shall have retained an investment adviser that meets all of the following criteria:
- 3020.8.11.1** The entity meets the following criteria: (A) The adviser is registered or exempt from registration with the Securities and Exchange Commission. (B) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q) of California Government Code 53601, inclusive. (C) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).
- 3020.8.12** Insured savings account or money market account. All savings account or money market accounts must be collateralized in accordance with California Government Code Section 53561. The District, at its discretion, may waive the collateralization requirements for any portion of the deposit that is covered by federal insurance.
- 3020.8.13** Money Market Mutual Funds. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. §. 80a-1, et seq.)

The District may invest in shares of beneficial interest issued by company shall have met either of the following criteria: (1) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs. (2) Retained an investment adviser registered or exempt from registration with the securities and exchange commission with not less than five years’ experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that the companies may charge.

Investments in Money Market Mutual Funds are further limited to 15 percent of surplus funds.

3020.8.14 Mortgage pass-through securities; collateralized mortgage obligations; mortgage-backed or other pay-through bonds; equipment lease-backed certificates; consumer receivable pass-through certificates; or consumer receivable-backed bonds rated “AA” or its equivalent or better by an NRSRO and with a remaining maturity of five years or less. The combined base value of this instrument is not to exceed 20 percent of the agency’s surplus monies.

3020.9 Maximum Maturity

Selection of investment maturities in conformance with the Government Code restrictions shall be based on a review of cash flow forecasts. Maturities will be scheduled to permit the District to meet all projected obligations.

Unless otherwise specified in this section, no investment shall be made in any security, other than a security underlying a repurchase, reverse repurchase, or investment agreement as authorized by this section that at the time of the investment has a term remaining to maturity in excess of five years.

3020.10. Sales Prior to Maturity

Securities shall not be purchased directly by Staff for the specific purpose of trading. However, sales prior to maturity are permitted under the following circumstances: (1) to meet an unanticipated disbursement; or (2) earn a higher overall rate of return by selling a security and reinvesting the proceeds. Certain investment opportunities may involve the recognition of value losses. Book value trading losses are permitted. Any trading loss greater than 1 percent of principal value of any investment holding requires the following: (1) explanation of source of loss, (2) rationale for transactions resulting in recognition of loss, and (3) estimation of time necessary to recoup the loss.

3020.11 Reporting Requirements

Quarterly, District staff shall present the Board with a report which conforms with the requirements of Government Code Section 53646(b). The quarterly report also shall (i) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a description of any of the District funds, investments, or programs that are under the management of contracted parties, including lending programs, and (iii) include a statement denoting the ability of the District to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may not, be available. The quarterly report shall be submitted by the second regularly scheduled meeting of the Board of Directors following the end of the quarter.

3020.12 Safekeeping and Custody

All securities purchased by or on behalf of the agency, whether negotiable, bearer, registered, or non-registered, shall be delivered, either by book entry or physical delivery, to the District’s third-party

custodian, and held in the District's name. The third-party custodian shall be independent from the company or firm which sold the security and from its investment adviser if it chooses one.

The only exceptions to the foregoing are LAIF, LGIPs, Certificates of Deposit, and money market funds since the purchased securities are not deliverable. In all cases, purchased securities shall be held in the District's name.

3020.13 Investment Policy Review

Annually, District staff may present the Board with a statement of investment policy, which the Board must consider at a public meeting. Any changes to the policy shall also be considered by the Board at a public meeting.

3020.14 Glossary

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

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

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 investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

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

CAMP (the California Asset Management Program): A California Joint Powers Authority (CAJPA) established in 1989 to provide California public agencies, together with any bond trustee acting on behalf of such public agency, assistance with the investment of and accounting for bond proceeds and surplus funds. For bond proceeds, the objective of CAMP is to invest and account of such proceeds in compliance with arbitrage management and rebate requirements of the Internal Revenue Service. The program includes the California Asset Management Trust, a California common law trust organized in 1989. The Trust currently offers a professionally managed money market investment portfolio, the Cash Reserve Portfolio, to provide public agencies with a convenient method of pooling funds for temporary investment pending their expenditure. The Trust also provides recordkeeping, custodial and arbitrage rebate calculation services for bond proceeds. As part of the program, public agencies may also establish individual, professionally managed investment accounts.

The pool seeks to attain as high a level of current income as is consistent with the preservation of principal. The Pool purchases only investments of the type in which public agencies are permitted by statute to invest surplus funds and proceeds of their own bonds.

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.

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

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

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

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per entity.

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

JOINT POWERS AUTHORITY POOLS: JPA Pools are local government investment pools comprised of at least two entities and accredited by the CAJPA. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the JPA. To be eligible, the JPA issuing the shares shall have retained an investment adviser that meets all of the following criteria: (1) the adviser is registered or exempt from registration with the Securities and Exchange Commission, (2) the adviser has not less than five years of experience investing in the securities and obligations in Section 53601, subdivisions (a) to (n), and (3) the adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

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

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

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

PORTFOLIO: Collection of securities held by an investor.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

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

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

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

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

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

DRAFT