MENLO PARK FIRE PROTECTION DISTRICT
INVESTMENT POLICY

1.0 Policy

The Menlo Park Fire Protection District (the District) shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives of the District's Investment Policy (the Policy), in priority order of safety, liquidity and return on investment.

2.0 Scope

The Policy applies to all investment activities and financial assets of the District. The funds covered by this Policy are accounted for and incorporated in the District's Annual Comprehensive Financial Report (ACFR) and include:

a. General Fund
b. Special Revenue Fund
c. Capital Projects Improvement Fund
d. Debt Service Fund

3.0 Prudence – Reference: CA Govt. Code 53600.3

The standard of prudence to be used by the designated representative shall be the "prudent investor" standard and shall be applied in the context of managing the overall portfolio. Persons authorized to make investment decisions on behalf of local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard which states, "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investment as part of an overall strategy, investments may be acquired as authorized by law."

4.0 Objective – Reference: CA Govt. Code 53600.5

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

1. Safety: Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the District will

diversify its investments by investing funds among a variety of securities with independent returns.

2. Liquidity: The District's investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated.

3. Return on investments: The District's investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. These measurements should be commensurate with the District's investment risk constraints identified in the Policy and the cash flow characteristics of the portfolio.

5.0 Delegation of Authority – Reference: CA Govt. Code 53607

Pursuant to Government Code Section 53607, the District's Board delegates to the District Treasurer the authority to invest or to reinvest funds, or to sell or exchange securities. (The District Treasurer is responsible for ensuring that all investment transactions are carried out in conformance with this Policy and shall assume full responsibility for such investment transactions. The delegation of authority is to be renewed annually by the Board of Directors.

The daily cash management, investment transactions and account reconciliations are the primary responsibilities of the District Treasurer. These activities are also carried out by other members of the Finance Department under the direction of the District Treasurer. The District Treasurer shall establish procedures for the operation consistent with this Policy.

The District Treasurer and authorized individuals acting in accordance with written procedures and the Policy 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 and appropriate action is taken to control adverse developments.

The District Treasurer may delegate day-to-day investment decision-making and execution authority to the District's investment advisor. The advisor shall follow the Policy and such other written instructions as are provided. For clarity, the District Treasurer is responsible for ensuring that all investment transactions, whether executed by District staff or the District's investment advisor, are carried out in conformance with this Policy and shall assume full responsibility for such investment transactions.

6.0 Ethics and Conflicts of Interest

Investment officials shall refrain from personal business activity that could conflict with proper execution and management of the Policy and the investment program, or which could impair their ability to make impartial decisions. Investment officials must provide a public disclosure document by February 1 of each year or when material interest in financial institutions or personal investment position(s) require it. Furthermore, investment officials must refrain from undertaking personal investment transactions with the same individual(s) employed by the financial institution with whom business is conducted on behalf of the District. The District Treasurer is governed by the Political Reform Act of 1974 regarding disclosure of material financial interests.

7.0 Authorized Financial Dealers and Institutions – Reference: CA Govt. Code 53601.5

The District Treasurer shall purchase investments from authorized institutions licensed by the state as a broker-dealer, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association, or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank.

Authorization – The District may conduct business with major registered securities broker-dealers and with dealers designated "Primary" by the Federal Reserve provided all the following criteria are met. The District Treasurer will maintain a list of approved financial institutions authorized to provide investment services to the public agency in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

Broker-dealers must:

a. Have offices located within the State of California;
b. Be adequately capitalized;
c. Make markets in securities appropriate to the District's needs;
d. Certify to have read and will abide by the conditions set forth in the District's investment policy;

The District Treasurer shall investigate all financial institutions which wish to do business with the District and shall require that each financial institution complete and return the appropriate questionnaire and required documentation. An annual review of the financial condition and registration of qualified bidders will be conducted by the District Treasurer.

No public deposit shall be made except in a qualified public depository as set forth by the established state laws. All financial institutions and broker/dealers who desire to conduct investment transactions with the District must supply to the District Treasurer with the following:

a. Audited financial statements;
b. Proof of NASD certification;
c. Trading resolution;
d. Proof of State of California registration;
e. Completed broker/dealer questionnaire; and
f. Certification of having read the District's investment policy and depository contracts.

Ratings – With the exception of the Local Agency Investment Fund (LAIF), U.S. Treasury and Government Agency issues, investments shall be placed in instruments and institutions that meet the rating requirements for that asset class.

8.0 Authorized and Suitable Investments – Reference: CA Govt. Code 53601 and 53601.6

California Government Code Section 53601 defines eligible securities for the investment of surplus funds by local agencies Surplus funds of the District are invested in compliance with this statute and as further limited in this Policy.

U.S. Government - United States Treasury Bills, Notes, and Bonds are backed by the full faith and credit of the United States Government. There shall be no limitation as to the percentage of the portfolio invested in this category. Maturities are limited to a maximum of five years.

U.S. Agencies - The purchase of instruments of, or issued by, a federal agency or a United States government-sponsored enterprise obligation, participation, or other instrument, will be limited to a maximum maturity of five years. Such agencies include, but are not limited to, the Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Student Loan Marketing Association, Tennessee Valley Authority, and the Federal National Mortgage Corporation.

Municipal Bonds, Notes or Evidences of Indebtedness - Bonds issued by the District, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the District or by a department, board, agency, or authority of the District.

Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this state, include bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. A maximum of 15 percent (15%) of the portfolio may be so invested.

Bankers' Acceptances - Bills of exchange or time drafts drawn on and accepted by commercial banks which are eligible for purchase by the Federal Reserve System are known as bankers' acceptances. Purchases of these instruments may not exceed 180 days to maturity or 40 percent (40%) of the District's surplus funds. A maximum of 30 percent (30%) of the Districts' funds may be invested in the bankers' acceptances of any one commercial bank.

Asset-Backed and Mortgage-Backed Securities - A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investments that are not issued or guaranteed by federal agencies and GSEs, under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 12 percent (12%) of the investment portfolio in the aggregate and 2 percent (2%) for an individual issuer.

Commercial Paper - This short-term unsecured promissory note is issued to finance short term credit needs. Eligible commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper must meet one of the following sets of conditions below:

a. Organized and operating in the U.S 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 an NRSRO.

OR

a. Organized within the U.S 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 a surety bond.
c. Has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

Purchases of commercial paper shall have a maximum maturity of 270 days or less. The District may invest no more than 2 percent (2%) of its total investment assets in eligible commercial paper from a single issuer. Commercial paper purchases will be limited to 20 percent (20%) of the District's portfolio.

Negotiable Certificates of Deposit (NCDs) - Allowable NCDs are issued by a nationally or state- chartered bank or a state or federal association or by a state-licensed branch of a foreign bank. The District Treasurer may invest up to 30 percent (30%) of surplus funds in NCDs limited to institutions rated "A" or better by Moody's or "A" or better by ~~Standard & Poor's~~S&P Global's CD Rating Services. A rating equivalent to FDIC rating of "One" or "Two" or a Sheshunoff performance rating of A or better is required for those institutions not rated by Moody's, Fitch's or ~~Standard & Poor's~~S&P Global. NCDs are considered liquid, trading actively in the secondary market.

Certificates of Deposit (CDs) - Certificates of deposit or "time deposits" of up to $250,000 are federally insured. Beyond that amount, these CDs must be collateralized with the collateral held separately from the issuing institution. The value of the investment must have collateral of at least 110 percent (110%) if government securities, or collateral of at least 150 percent (150%) if mortgage-backed securities. In addition, time deposits shall be placed in institutions meeting all capital requirements and which maintain a rating equivalent to FDIC rating of "One" or "Two" or a Sheshunoff performance rating of A or better. The purchases of negotiable certificates of deposit shall not exceed 30 percent (30%) of the District's monies.

Repurchase Agreements - The District may invest in repurchase agreements with banks and dealers of primary dealer status recognized by the Federal Reserve with which the District has entered into a master repurchase contract which specifies terms and conditions of repurchase agreements. The maturity of repurchase agreements shall not exceed one year. The market value of securities used as collateral for repurchase agreements shall be monitored by the District Treasurer and will not be allowed to fall below 102 percent (102%) of the value of the repurchase agreement. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent (102%) no later than the next business day. In order to conform with provisions of the Federal Bankruptcy Code, which provide for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be eligible negotiable certificates of deposit, bankers' acceptances, commercial paper, or securities that are direct obligations of or that are fully guaranteed by the United States or any agency of the United States. These eligible securities are further defined by California Government Code Section 53651.

Medium-Term Notes - A maximum of 30 percent (30%) of the District's portfolio may be invested in medium-term notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Note maturities may not exceed five years. Securities eligible for investment must be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service (i.e., Moody's or ~~Standard & Poor's~~S&P

Global). The District may invest no more than 5 percent (5%) of its total investment assets in the commercial paper and the medium-term notes of any single issuer.

Mutual Funds - Shares of beneficial interest (mutual funds) issued by diversified management companies investing in securities/obligations authorized by California Government Code Section 53600, et. seq., and complying with Section 53630, are permitted investments. Section 53601(l) further defines requirements. A maximum of 20 percent of the portfolio may be so invested. However, no more than 5 percent (5%) of the District's funds may be invested in shares of beneficial interest of any one mutual fund.

Supranational – A maximum of 10 percent (10%) of the District's investment portfolio may be invested in supranationals, limited to 2 percent (2%) per single issuer. These are United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), 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 at least one NRSRO.

Local Agency Investment Fund (LAIF) - The District may invest in LAIF, established by the State Treasurer for the benefit of local agencies up to the maximum permitted under its rules.

San Mateo County Pool **–** The District may invest in the San Mateo County Pool established by the San Mateo County Treasurer for the benefit of local agencies (as established in California Code Section 53684) up to the maximum established by the County.

Local Government Investment Pools - Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority 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 authorized in subdivisions (a) to (q), inclusive.

(3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

Ineligible Investments - Investments not described herein, including but not limited to common stocks and financial futures contracts and options, are prohibited in this fund.

9.0 Collateral

The issue of collateral requirements is addressed in California Government Code Section 53652. All active and inactive deposits must be secured at all times with eligible securities in securities pools pursuant to Sections 53656 and 53658. Eligible securities held as collateral shall have a market value in excess of the total amount of all deposits of a depository as follows:

- Government securities, shall have a market value of at least 10 percent (10%) in excess of the total amount of all deposits of a depository secured by the eligible securities;
- Mortgage-backed securities, shall have a market value at least 50 percent (50%) in excess of the total amount of all deposits of a depository secured by those eligible securities;
- Letter of credits, shall have a market value of at least 5 percent (5%) in excess of the total amount of all deposits of a depository secured by those eligible securities.

FDIC coverage as the official custodian of a public unit is insured up to $250,000 per bank and all active and inactive deposits above the FDIC insured amount must be collateralized to be secured.

10.0 Investment Pools/Mutual Funds

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

a) A description of eligible investment securities, and a written statement of investment policy and objectives.
b) A description of interest calculations and how it is distributed, and how gains and losses are treated.
c) A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
d) A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
e) A schedule for receiving statements and portfolio listings.
f) Are reserves, retained earnings, etc. utilized by the pool/fund?
g) A fee schedule, and when and how is it assessed.
h) Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

11.0 Diversification

The District's portfolio will be suitably diversified by type and institution in an effort to reduce portfolio risk while attaining market average rates.

Security Type and Institution - U.S. Treasury securities and authorized pools, and any portfolio or institutional limits shall comply with California Government Code. Investments are further limited by specific language relating to each investment type as stated in Section 8 of this Policy.

<u>Maximum Maturities</u> - To the extent possible, the District Treasurer will attempt to match investments with anticipated cash flow requirements. For purposes of compliance with this section, an investment's term or remaining maturity shall be measured from the settlement date to final maturity. A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment. The District's portfolio will not be directly invested in securities which mature more than five years from the date of purchase. Reserve funds may be invested in securities exceeding the five years as allowed by California Law (maturity of such investments should coincide as nearly as practicable with expected use of funds).

12.0 Safekeeping and Custody – Reference: CA Govt. Code 53608

All security transactions, including collateral for repurchase agreements, entered into by the District shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Treasurer and evidenced by safekeeping receipts.

13.0 Internal Controls

The District Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft, fraud or misuse. Accordingly, the District's portfolio is included in an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures. The District's portfolio is included in the annual review of the District's financial management performed by an independent (as defined by FASB and GASB) outside audit firm.

14.0 Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. The District's investment strategy is passive. Given this strategy, the basis used by the Treasurer to determine whether market yield is being achieved shall be to identify a comparable benchmark to the District's portfolio investment duration. (i.e. 90-day US Treasury Bill, 6-month US Treasury Bill, Average Fed Funds Rate). Benchmarks may change over time based on changes in market conditions or cash flow requirements.

15.0 Reporting – Reference: CA Govt. Code 53607, 53646

a. The District Treasurer shall provide investment information to the District Board on a monthly basis included in the Treasurer's report. With respect to all securities held by the District, and under management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund, the report shall also include a current market value as of the date of the report, and shall include the source of this same valuation. If the investment portfolio includes other investments than LAIF the report will include the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and monies held by the District.

Financial Statements per GASB #31 – District Treasurer will provide the portfolio's market value gains/losses to Finance to be incorporated in the fiscal year-end balance sheet.

Financial Statements per GASB #40 - Effective June 30, 2005, additional disclosure is required. District Treasurer will provide detailed maturity and rating information to Finance to be incorporated in the Annual Comprehensive Financial Report (ACFR).

16.0 Investment Policy Adoption –Reference: CA Govt. Code 53646

The Policy shall be adopted by resolution of the District Board. The Policy shall be reviewed annually by the District Board and any modifications made thereto by the District Treasurer must be presented to the District Board of Directors at a public meeting.

The District Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this Policy. The procedures should include reference to: safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person, or officer may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the District.

APPENDIX NO. 1: GLOSSARY

AGENCIES: Federal agency securities.

ASSET-BACKED AND MORTGAGE-BACKED SECURITIES: A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond.

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.

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

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in inter-dealer markets.

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

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

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

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

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest-bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills.

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

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

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

~~**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits, currently up to $100,000 per deposit.~~

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

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

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

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 AGENCY INVESTMENT FUND (LAIF): Funds from local governmental units may be remitted to the California State Treasurer for deposit in this special fund for the purpose of investment.

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

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

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

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

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks, and a few unregulated firms.

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 or the current income return.

RATING AGENCIES:

~~STANDARD AND POORS~~S&P Global Inc.: Probably the best known of the Big Three rating agencies, ~~Standard and Poor's~~S&P Global Inc. (S&P Global) is a company providing financial publishing, information and media to the world's capital markets. It is owned by the McGraw-Hill Companies. S&P Global also publishes stock market indices, the most well-known of which is the S&P 500. S&P Global's ratings from the best quality borrowers to the lowest are: AAA, AA, A, BBB, BB, B, CCC, CC, C, and D. Investment grade is BBB and above. S&P uses plus and minus to add intermediate designations to these ratings.

MOODY: Moody’s started in 1909 as a publishing company, issuing railroad bond guides called Moody’s Manuals. It later expanded its coverage to municipal and commercial bonds, and is now called Moody's Investment Services. Moody’s uses the following ratings: Aaa, Aa, A, Baa, Ba, B, Caa, Ca, and C. Numbers are added for intermediate designations, such as Baa1, Baa2, etc. Investment grade is considered to be Baa and above; anything below is considered speculative, or junk.

FITCH: Owned by a French Holding Company, Fimalac SA, Fitch operates internationally and offers financial research as well as credit rating services. The smallest of the Big Three, Fitch uses the same ratings scale as S&P.

CONFLICTS OF INTEREST OF RATING AGENCIES: Credit ratings agencies receive fees from the issuers of the securities they rate. In the time leading up to the 2008 financial crisis, S&P, Moody's and Fitch all gave consistently high ratings to mortgage-backed securities created by the investment banks who were paying them. This overrating of risky debt instruments contributed to the financial bubble and subsequent decline. Congress has proposed new regulation of these agencies to increase competition and ensure independence in this market.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Federal Reserve Bank is said to be doing RP, it is lending money that is, increasing bank reserves.

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

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

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

SPREAD: a) The yield or price difference between the bid and offer on an issue; b) The yield or price difference between different issues.

SUPRANATIONAL ENTITIES: Formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds. Examples of supranational institutions include the European Investment Bank and the

World Bank. Similarly to the government bonds, the bonds issued by these institutions are considered direct obligations of the issuing nations and have a high credit rating.

TREASURY BILLS: A non-interest-bearing 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 U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

YIELD: The rate of annual income returns 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.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember 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.

	California Code Limits		District Limits	
Investment Instrument	Maximum % of Portfolio	Maximum % with One Issuer	Maximum % of Portfolio	Maximum % with One Issuer
Local Agency Investment Fund (LAIF)	None	None	None	None (Per State Treasurer Limit)
U.S. Treasury Issues	None	None	None	None
U.S. Federal Agency and Government-Sponsored Enterprise (GSE) Issues	None	None	None	None
Repurchase Agreements	None	None	None	None
Certificates of Deposit	30%	None	30%	None
Negotiable Certificates of Deposit	30%	None	30%	None
Bankers' Acceptances	40%	30%	40%	30%
Corporate Medium-Term Notes	30%	10%	30%	5%
Mutual Funds	20%	10%	20%	5%
County Pooled Investments Funds	None	None	None	None (Per County Limit)
Local Government Investment Pool (LGIP)/Joint Powers Authority Pool	None	None	None	None
Commercial Paper	40% [a]	10%	20%	2%
Municipal Securities	None	None	15%	None
Supranationals	30%	None	10%	2%
Asset-Backed and Mortgage-Backed Securities	20%	None	12%	2%

APPENDIX NO.2: INVESTMENT LIMITS

[a] Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, that have less than one hundred million dollars ($100,000,000) of investment assets under management, may invest no more than 25 percent of their monies in eligible commercial paper. Local agencies, other than counties or a city and county, that have one hundred million dollars ($100,000,000) or more of investment assets under management may invest no more than 40 percent of their monies in eligible commercial paper. A local agency, other than a county or a city and a county, may invest no more than 10 percent of its total

investment assets in the commercial paper and the medium-term notes of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635.

Investment Policy Revised and Adopted on ~~June~~ May ~~11~~20, ~~2024~~2025