Exhibit A

CITY OF MILPITAS
INVESTMENTPOLICY

POLICY OVERVIEW

PURPOSE

The purpose of this policy is to establish overall guidelines for the management and investment of the City of Milpitas (the City) unexpended funds under authority granted by the City Council. This policy is in compliance with the provisions of the California Government Code, Sections 16340, 16429.1- 16429.4, and 53600-53686, the authority governing investments for municipal governments.

INVESTMENT OBJECTIVES

The primary objectives of this investment policy, in order of priority, are safety, liquidity, and return:

1) **Safety -** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. This objective shall be accomplished by mitigating credit risk and market risk.
2) **Liquidity -** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This objective shall be accomplished by structuring the portfolio so that securities mature concurrently with anticipated needs. The portfolio shall consist largely of securities with active secondary or resale market. Furthermore, a portion of the portfolio may be placed in money market funds or Local Agency Investment Fund (LAIF) whichoffer same day liquidity for short term investment.
3) **Return -** The investment portfolio is designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into consideration the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Nevertheless, investment performance shall be continually monitored and evaluated by the City Treasurer by comparison with other investment portfolio benchmarks.

Additionally, investments are to be made that will bear in mind the responsibility of City government to its citizens. The following investment considerations, which enhance the quality of life, will be adhered to:

- **Divestment From Publicly-Traded Fossil Fuel Companies -** The City of Milpitas has a responsibility to protect the lives and livelihoods of its inhabitants from the threat of climate change. The City believes that its investments should support a future where all citizens can live healthy lives without the negative impacts of a warming environment. For the purposes of the Investment Policy, a "fossil fuel company" shall be defined as any of the two hundred publicly-traded companies with the largest coal, oil and gas reserves as measured by the gigatons of carbon dioxide that would be emitted if those reserves were extracted and burned, as listed in the Carbon Tracker Initiative's "Unburnable Carbon" report. Staff responsible for managing the City's investment portfolio are directed to divest all City investment funds heldin fossil fuel companies once they reach their maturities and are prohibited from making any new investments in such companies.

SCOPE

The investment policy applies to all financial assets of the City of Milpitas as accounted for in the Comprehensive Annual Financial Report (CAFR), including but not limited to the funds listed below:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Debt Service Fund
- Enterprise Funds
- Internal Service Fund
- Trust and Agency Funds
- Any new fund created by the City Council unless specifically exempted with the exception of the following:

1) The City's Deferred Compensation Plan is excluded because it is managed by a third-party administrator and invested by individual plan participants.
2) Proceeds of debt issuance shall be invested in accordance with the investment objectives of this policy. However, such proceeds are generally invested in accordance with permitted investment provisions of their specific bond indentures. If the City Treasurer determines that the matching of bond reserve fund with the maturity schedule of an individual bond issue is prudent, the investment policy authorizes extending beyond the five year maturity limitation as outlined in this document.

STANDARDS OF CARE

1) Prudence - Pursuant to California Government Code, Section 53600.3, all persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the Prudent Investor Standard:

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

The City Treasurer and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

2) **Ethics and Conflict of Interest -** Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or could impair their ability to make impartial investment decisions. City employeesinvolved in the investment process shall disclose to the City Manager any material financial interest in financial institutions that conduct business within the jurisdiction. They shall further disclose any large personal financial/investment positions that could affect the performance of the investment portfolio.

3) **Delegation of Authority -** Authority to manage the investment program is derived from California Government Code, Sections 41006 and 53600 et seq and granted to the City Treasurer by Section VI-1-3.04 of the City of Milpitas Municipal Code. Under the oversight of the City Treasurer, responsibility for the operation of the investment program may be delegated to the Finance Administration staff, who shall act in accordance with established written procedures and internal controls consistent with the investment policy. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of the subordinate staff members. The system of internal controls includes separation of duties, custodial safekeeping, avoidance of physical delivery securities, development of wire transfer agreement, and clear delegation of authority to subordinate staff members. The City may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy. The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of the overall portfolio's return and the cash flow requirements of the City.

INVESTMENT GUIDELINES

INVESTMENT PARAMETERS

1) **Maximum Maturities** - To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five (5) years from the date of trade settlement. The intent to invest in securities beyond the five year maturity limitation shall be disclosed in writing to the City Council no less than 3 months prior to the investment. Reserve funds established by the issuance of bonds and other funds with longer-term investment horizons may be invested in securities exceeding five years if the maturity of such investments are made to coincide with the expected use of funds.

Competitive Bidding - It is the policy of the City to require that, where possible, all transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shallbe recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

PERFORMANCE EVALUATION/BENCHMARK

- The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments. Investment performance is continually monitored and evaluated by the City Treasurer. Investment performance statistics and activity reports are prepared on a quarterly basis for presentation to the City Manager and City Council within 30 days of the end of the quarter.
- The City Treasurer shall select an appropriate, readily available index to use as a market benchmark. The benchmark should be commensurate with the level of market risk of the portfolio, and should serve as a measure of risk, interest income, and fair value appreciation. Samples of readily available benchmarks include Intercity Exchange/Bank of America/Merrill Lynch 1-3 Year or 1-5 Year Treasury Indices.

SAFEKEEPING OF SECURITIES

- To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the City shall be held in safekeeping by a third party bank trust department, acting as agent for the City under the teams of a custody agreement or master repurchase agreement. All trades executed by a dealer will settle delivery vs. payment (DVP) through the City's safekeeping agent.
- Securities held in custody for the City shall be reviewed and verified quarterly by Finance staff who has not been assigned to the investment function.

INTERNAL CONTROL

The City Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits to be derived and that the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third party custodian

REPORTING

The City Treasurer shall review and render quarterly reports to the City Manager and City Council which shall include the par and dollar amount of the investment, the classification of the investment, the percentage of the total portfolio which each type of investment represents, the nameof the institution or entity, the rate of interest, the maturity date, the current market value, and the source of the market value.

- Statement that the projected cash flow is adequate to meet expected obligations over the next six months.

- A report of transactions by month.
- The weighted average maturity of the investment portfolio.
- The average weighted yield to maturity of the portfolio as compared to the applicable benchmark.
- Statement of compliance with the investment policy.
- The report is due within 30 days of the end of the quarter.
- The City Manager may, at his discretion, require this reporting on a monthly basis based upon market conditions.

QUALIFIED BROKER/DEALERS

- The City shall transact business with financial institutions and security broker/dealers after careful review of their qualifications and creditworthiness. All dealers who desire to do business with the City shall provide the necessary information (e.g. audited financial statements, proof of state registration, proof of National Association of Securities Dealers certification, etc.) from which the City can determine their creditworthiness, the existence of any pending legal action against the firm or the individual broker as well as an understanding of the security markets that they service. The City Treasurer shall annually send a copy of the current investment policy to all financial institutionsand broker/dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the City's investment policies and intends to sell the City only appropriate investments authorized by this investment policy.

- In accordance with California Government Code Section 53601.5, Any investment authorized pursuant to Section 53601 or 53601.1, not purchased directly from the issuer, shall be purchased either from an institution licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association (as defined by Section 5102 of the Financial Code) or from a brokerage firm designated as a primary dealer by the Federal Reserve bank.

- Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the City, except where the City utilizes an external investment adviser in which case the Agency may rely on the adviser for selection.

COLLATERAL REQUIREMENTS

Collateral is required for investments in non-negotiable certificates of deposit and repurchase agreements. In order to reduce market risk, the collateral level shall be at least 102% of market value of principal and accrued interest and marked-to-market weekly. Securities acceptable as collateral shallbe the direct obligations of or are fully guaranteed as to principal and interest by the United States or any agency of the United States.

The City shall require any bank or financial institution to comply with the collateralization criteria defined in California Government Code, Section 53651.

AUTHORIZED INVESTMENTS

Investment of City funds is governed by the California Government Code, Sections 16340, 16429.1-16429.4, and 53600-53686. Within the context of the limitations, the following investments are authorized, as further limited herein. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. Percentage holding limits and minimum credit quality requirements listed in this section apply at the time the security is purchased.

Any investment currently held at the time the policy is adopted which does not meet the new policy guidelines can be held until maturity and shall be exempt from the current policy. At the time of the investment's maturity or liquidation, such funds shall be reinvested only as provided in the current policy.

An appropriate risk level shall be maintained by primarily purchasing securities that are of high quality, liquid, and marketable. The portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers.

1) **United States Treasury Bills, Bonds, and Notes** or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio which can be invested in this category, though a five year maturity limitation is applicable.

2) **Federal Agency Obligations** or United States Government-Sponsored Enterprise (GSE) obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or Unites States government sponsored enterprises. There is no percentage limitation of the portfolio which can be invested in this category, although a five year maturity limitation is applicable. Additionally, no more than 30% of the portfolio may be invested in any single Agency/GSE issuer, and the maximum percent of agency callable securities in the portfolio will be 20%.

3) **Banker's Acceptances**- Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as banker's acceptances. Banker's acceptances must be issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one nationally recognized statistical rating organization (NRSRO), or long-term debt obligations which are rated in a rating category of "A" or its equivalent or better by at least one NRSRO. Purchase of banker's acceptances may not exceed 180 days maturity or 40% of the value of the portfolio. Furthermore, no more than 5% of the value of the portfolio may be invested in the banker's acceptances of any one commercial bank.

4) **Commercial Paper** of the highest letter and number rating as provided by at least one NRSRO, either:

   - Issued by general corporations organized and operating within the United States, having assets in excess of $500,000,000 and having a rating in the rating category of "A" or its equivalent or better rating on debt other than commercial paper as provided by at least one NRSRO, or
   - Issued by entities organized within the United States as a special purpose corporation, trust, or limited liability company. The securities must have program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond. The securities must by rated "A-1" or its equivalent or better by at least one NRSRO.

   Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 25% of the value of the portfolio. No more than 5% of the portfolio may be invested in any single issuer. Under a provision sunsetting on January 1, 2026, no more than 40% of the portfolio may be invested in Commercial Paper if the City's investment assets under management is $100,000,000 or greater.

5) **Negotiable Certificates of Deposit** issued by nationally or state chartered banks, a savings association or a federal association, a state or federal credit union, or by a federally-licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 30% of the value of the portfolio. No more than 5% of the portfolio may be invested in any single issuer. A maturity limitation of five years is applicable. The amount of the NCD insured upto the FDIC limit does not require any credit ratings. Any amount above the FDIC insured limitmust be issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of "A" or its equivalent or better by at least one NRSRO.

6) **Repurchase Agreements** - Repurchase agreements collateralized with securities authorized under in accordance with California Government Code Section 53601(j). There are no limits on the dollar amount or percentage that the City may invest. The maturity of the repurchase agreements shall not exceed one year. The market value of the securities used as collateral for the repurchase agreements shall be monitored by the investment staff weekly and shall not be allowed to fall below 102% of the value of the repurchase agreement. A Master Repurchase agreement is required between the Cityand the dealer for all repurchase agreements transacted.

7) **Time Deposits** - Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. A maturity limitation of five years is applicable.

8) **Medium-Term Corporate 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 with a maximum maturity of five years may be purchased. Securities eligible for investment shall be rated in a rating category of "A" or its equivalent better by at least one NRSRO. Purchase of medium-term notes may not exceed 30% of the value of the portfolio and no more than 5% of the value of the portfolio may be invested in notes issued by one corporation.

9) **Local Agency Investment Fund (LAIF)** - a State of California managed investment pool may be used up to the maximum permitted in accordance with California Government Code Section 16429.1.

10) **Money Market Funds -** Money Market funds invested in U.S. Government securities are permitted under this policy and under the California Government Code Section 53601. In order to be eligible for investment under this section, an investment objective of such a fund must be the maintenance of a price per share of $1.00. Investment in such funds shall not exceed 20% of the City's total portfolio and no more than 10% of the City's total portfolio may be invested in any one money market fund. In addition, either one of the following criteria must be met:
    - The fund shall have achieved a rating of "AAA" by at least two nationally recognized statistical rating organizations, or
    - The fund shall have retained an advisor who is registered or exempt from registration with the Security Exchange Commission with not less than five years' experience managing money market funds with assets under management in excess of five hundred million dollars ($500,000,000).

11) **Municipal Securities –** including obligations of the City, the State of California, and any local agency within the State of California, provided that:

- The securities are rated in a rating category of "A" or its equivalent or better by at least one nationally recognized statistical rating organization ("NRSRO").
- No more than 5% of the portfolio may be invested in any single issuer.
- No more than 30% of the portfolio may be in Municipal Securities.
- The maximum maturity does not exceed five (5) years.

12) **Municipal Securities (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., provided that:
    - The securities are rated in a rating category of "A" or its equivalent or better by at least one nationally recognized statistical rating organization ("NRSRO").
    - No more than 5% of the portfolio may be invested in any single issuer.
    - No more than 30% of the portfolio may be in Municipal Securities.
    - The maximum maturity does not exceed five (5) years.

13) **Asset-Backed, Mortgage-backed, Mortgage Passthrough Securities, and Collateralized Mortgage Obligations From Issuers Not Defined In Sections 1 And 2 of the Authorized Investments Section of this Policy,** provided that:
    - The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.
    - No more than 20% of the total portfolio may be invested in these securities.
    - No more than 5% of the portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer.
    - The maximum legal final maturity does not exceed five (5) years.

14) **Collateralized Bank Deposits—**City's deposits with financial institutions will be collateralized with pledged securities per California Government Code, Section 53651. There are no limits on the dollar amount or percentage that the City may invest in collateralized bank deposits.

15) **Supranational Securities—**provided that Issues are US 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. The securities must be rated in a rating category of "AA" or its equivalent or better by a NRSRO. No more than 30% of the total portfolio may be invested in these securities. No more than 10% of the portfolio may be invested in any single issuer. The maximum maturity does not exceed five (5) years.

INELIGIBLE INVESTMENTS AND INVESTMENT PRACTICES

Ineligible investments are those that are not described herein, including but not limited to, common stocks, reverse repurchase agreements, inverse floaters, range notes, mortgage derived interest only strips, derivatives securities, or any security that could result in zero interest accrual. Under a provision sunsetting on January 1, 2026, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted. Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited. Purchasing or selling securities on margin is prohibited. The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited. The purchase of foreigncurrency denominated securities is prohibited.

RISK MANAGEMENT AND DIVERSIFICATION

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

- The diversification requirements included in the "Authorized Investments" section of this policy are designed to mitigate credit risk in the portfolio.
- No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.
- The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or City's risk preferences.
- If a security owned by the City is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps will be taken:
    - Any actions taken related to the downgrade by the investment manager will be communicated to the City Treasurer in a timely manner.
    - If a decision is made to retain the security, the credit situation will be monitored and reported to the City Council as part of the Quarterly Investment Report.

Mitigating Market Risk in the Portfolio: Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The City recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The City will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The City further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The City, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The City will maintain a minimum of six months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements.
- The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.
- The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark as described in the Performance Evaluation/Benchmark section of this policy; an index selected by the City based on the City's investment objectives, constraints and risk tolerances.

INVESTMENT POOLS/MUTUAL FUNDS

The Agency shall conduct a thorough investigation of any pool or mutual fund prior to making an investment, and on a continual basis thereafter. The Treasurer shall develop a questionnaire which will answer the following general questions:

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

INTEREST EARNINGS

All moneys earned and collected from investments authorized in this policy shall be allocated monthly to various fund accounts based on the cash balance in each fund as a percentage of the entire pooled portfolio.

ANNUAL POLICY APPROVAL

The City's investment policy shall be adopted by resolution of the City Council on an annual basis. This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to City Council for approval.

GLOSSARY OF TERMS

Accrued Interest- Interest earned but not yet received.

Active Deposits- Funds which are immediately required for disbursement.

Amortization- An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Arbitrage- Transactions by which securities are bought and sold in different markets at the same time for the sake of the profit arising from a yield difference in the two markets.

Asked Price- The price a broker dealer offers to sell securities.

Banker's Acceptance- A high quality, short term money market instrument used to finance international trade. There has never been an instance of a failure to pay a banker's acceptance in full at its maturity date.

Basis Point- One basis point is one hundredth of one percent (.01).

Bid Price- The price a broker dealer offers to purchase securities.

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- Someone who brings buyers and sellers together and is compensated for his/her service.

Certificate of Deposit- A deposit insured up to $250,000 by the FDIC at a set rate for a specified period of time.

Collateral- Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Commercial Paper- Short-term, negotiable unsecured promissory notes of corporations.

Comprehensive Annual Financial Report (CAFR)- The official annual financial report for the City, prepared in conformity with Generally Accepted Accounting Principles (GAAP).

Coupon- The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Risk - Defined as the risk of loss due to failure of the issuer of a security.

Current Yield- The interest paid on an investment expressed as a percentage of the current price of the security.

Custodian- A bank or other financial institution that keeps custody of stock certificates and other assets.

Defeased Bond Issues- Issues that have sufficient money to retire outstanding debt when due so that the agency is released from the contracts and covenants in the bond document.

Delivery vs. Payment (DVP)- Delivery of securities with a simultaneous exchange of money for the securities.

Derivative- Securities that are based on, or derived from, some underlying asset, reference date, or index.

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. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Fannie Mae- Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Federal Reserve System- The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks and 5,700 commercial banks that are members.

Federal Deposit Insurance Corporation (FDIC)- Insurance provided to customers of a subscribing bank which guarantees deposits to a set limit (currently $250,000) per account.

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. sponsored corporation.

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.

Inactive Deposits- Funds not immediately needed for disbursement.

Interest Rate- The annual yield earned on an investment, expressed as a percentage.

Investment Agreements- An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

Liquidity- An asset that can easily and rapidly be converted into cash without significant loss of value.

Local Agency Investment Fund (LAIF)- A pooled investment vehicle for local agencies in California sponsored by the State of California and administered by the State Treasurer.

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- Defined as market value fluctuations due to overall changes in the general level of interest rates.

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.

Modified Duration- A measure of exposure to market risk of a security or a portfolio. It is the percent change in the price of a security (portfolio) or a 100 basis point change in the security's (portfolio's) yield.

Mutual Funds- An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

Negotiable Certificate of Deposit- A large denomination certificate of deposit which can be sold in the open market prior to maturity.

New Issue- Term used when a security is originally "brought" to market.

Note- A written promise to pay a specified amount to a certain entity on demand or on a specified date.

Par Value- The amount of principal which must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in S1,000 increments per bond.

Perfected Delivery- Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

Portfolio- Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

Primary Dealer- A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Principal- The face value or par value of a debt instrument, or the amount of capital invested in a given security.

Prospectus- A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC 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 where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing funds. The test of whether the standard is being met is if a prudent person acting in a similar situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

Purchase Date- The date in which a security is purchased for settlement on that or a later date.

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.

Repurchase Agreement (REPO)- A transaction where the seller agrees to buy back from the buyer (City) the securities at an agreed upon price on demand or at a specified date.

Reverse Repurchase Agreement (REVERSE REPO)- A transaction where the seller (City) agrees to buy back from the buyer the securities at an agreed upon price on demand or at a specified date.

Risk- Degree of uncertainty of return on an asset.

Rule G-37 of the Securities Rulemaking Board- Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

Safekeeping Service- An arrangement under which a third party institution holds securities or valuables under safe, controlled conditions. A safekeeping arrangement is evidenced by a safekeeping receipt.

Sallie Mae- Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

Secondary Market- A market made for the purchase and sale of outstanding issues following the initial distribution.

Securities and Exchange Commission (SEC)- The federal agency responsible for supervising and regulating the securities industry.

Settlement Date- The date on which a trade is cleared by delivery of securities against funds.

Tax and Revenue Anticipation Notes (TRANS)- Notes issued in anticipation of receiving tax proceeds or other revenues at a future date.

Time Certificate of Deposit- A non-negotiable certificate of deposit which cannot be sold prior to maturity.

Treasury Bills- U.S. Treasury Bills which are short-term, direct obligations of the U.S. Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of $10,000 in multiples of $5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

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.

U.S. Government Agencies- Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular agency.

U.S. Treasury Obligations- Debt obligations of the United States Government sold by the Treasury Department in the forms of Bills, Notes, and Bonds. Bills are short-term obligations that mature in 1 year or less and are sold on the basis of a rate of discount. Notes are obligations which mature between 1 year and 10 years. Bonds are long-term obligations which generally mature in **10** years or more.

Weighted Average Maturity (WAM)- The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

Yield- The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity- 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.

Yield Curve- A graphic representation that shows the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.