Effective as of July 1, 2026

STATEMENT OF INVESTMENT POLICY

I. PURPOSE

This Statement of Investment Policy is intended to provide guidelines for the prudent investment of the Town of Truckee's (the "Town") temporarily idle cash and outline the policies for maximizing the efficiency of the Town's cash management system. The ultimate goal is to enhance the economic status of the Town while protecting its pooled cash in accordance with applicable statutes governing the investment of public funds.

II. SCOPE

It is intended that this Policy cover all funds and investment activities under the direct authority of the Town, excluding any bond-related proceeds, reserves, etc., which are governed by their specific bond indenture.

This Investment Policy is endorsed and adopted by the Town's City Council, effective as of July 1, 2026, and replaces any previous versions.

III. OBJECTIVES

The Town's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the Town to invest funds to the fullest extent possible. The Town attempts to obtain the highest yield obtainable as long as investments meet the criteria established for safety and liquidity. The following objectives will be used as the guide for managing the City's investment portfolio:

1. Safety. The safety and risk associated with an investment refers to the potential loss of principal, interest or a combination of these amounts. Safety is the most important criteria for deciding where and when to invest Town monies. The Town only operates in those investments that are considered safe relative to the Town's risk profile.

2. Liquidity. To maintain sufficient liquidity to meet cash flow needs.

3. Yield. This is the potential dollar earnings an investment can provide, and sometimes is described as the rate of return. The investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles. Yield becomes a consideration only after the basic requirements of safety and liquidity have been met.

IV. DELEGATION OF AUTHORITY

Pursuant to California Government Code Section 53607, the Town Council's management responsibility for the investment program is hereby delegated for a one-year period to the Administrative Services Director, to act as the Town Treasurer, who shall be responsible for the investment of idle funds consistent with this Policy until the delegation of authority is revoked or expires. Subject to review, the Town Council may renew the delegation of authority pursuant to this section each year. The Administrative Services Director may delegate these duties to his/her designee. The day-to-day investment decision making and execution authority may also be delegated to an investment advisor who is registered under the Investment Advisers Act of 1940, under the supervision of the Administrative Services Director. The investment advisor shall follow this Policy and such other written instructions as are provided.

V. PRUDENCE

Pursuant to California Government Code Section 53600.3, all persons authorized to make investment decisions on behalf of the Town 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."

The Town's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Town recognizes that no investment is totally without risk and that the investment activities of the Town are a matter of public record. Accordingly, the Town recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security may be in the best long-term interest of the Town.

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.

VI. INTERNAL CONTROLS

A system of internal controls shall be established and documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Town. Controls deemed most important include: control of collusion, separation of duties, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, relationships with its financial service providers, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions or confirmation to someone other than the one initiating the original transaction, minimizing the number of authorized Investment Officials, documentation of transactions and strategies, and maintaining a code of ethics.

Periodically, as deemed appropriate by the Town, an independent analysis by an external auditor shall be conducted to review internal controls, account activity and compliance with policies and procedures.

VII. GENERAL INVESTMENT GUIDELINES

1. Investment Transactions. Every instrument transaction must be authorized, documented and reviewed by the Town's Administrative Services Director or his/her designee.

2. Pooled Cash. Whenever practical, the Town's cash should be consolidated and invested on a pooled concept basis. Interest earnings may be allocated to fund cash and investment balances with the goal of minimizing banking fees and the costs associated with monitoring and maintaining different banking accounts.

3. Competitive Bids. Purchase and sale of securities should be made on the basis of competitive offers and bids when practical.

4. Cash Forecast. The cash flow for the Town should be analyzed with the receipt of revenues and maturity of investments scheduled so that adequate cash will be available to meet disbursement requirements.

5. Maximum Maturity. The final maturity of any security purchased by the Town will be no more than five years from the date of settlement. Proceeds of debt issuance shall be invested in accordance with the general investment philosophy of the Town as set forth in this policy; however, such proceeds are invested in accordance with permitted investment provisions of their specific bond indentures.

6. Excluded Investments. The direct investing of Town funds are restricted as follows:
    a. No investments are to be made companies whose primary business is the extraction, refining, processing, or distribution of fossil fuels including any company involved in the coal industry (defined as any company classified under Bloomberg Industry Classification System (BICS) code 131016) .
    b. No investments are to be made in companies that source the majority of their revenues from the production of tobacco or tobacco-related products.
    c. No investments are to be made in companies that source the majority of their revenues from the production of firearms, weapons, or nuclear power with the exception of those used for national defense of the United States.

VIII. SOCIAL AND ENVIRONMENTAL CONCERNS

In the event that all general objectives mandated by state law and set forth in this policy and created equal, investments in corporate securities and depository institutions will be evaluated for social and environmental concerns. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability, or sexual orientation, as well as those entities that practice environmentally sound and fair labor practices.

IX. ACCEPTABLE INVESTMENT INSTRUMENTS

California Government Code Sections 53600 et. seq. provide basic investment limits and guidelines for government entities. Within the investments permitted by the Government Code, the Town seeks to further restrict eligible investment to the investments listed below. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameter(s) will take precedence. Percentage holding limits and credit limitations listed in this section apply at the time the security is purchased.

The Town investment portfolio may purchase and hold the following instruments:

1. U.S. Government: United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the Town's portfolio that may be invested in this category.

2. Federal Agencies: 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. Investments in these securities are limited to a maximum of 35 percent with any single agency. Callable agencies are limited to a maximum of 20 percent of the Town's portfolio.

3. Municipal Securities: These include obligations of the Town, the state of California, 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, and any local Agency within the state of California, provided that long-term obligations are rated in the "A" category or higher, or the equivalent, by at least one nationally recognized statistical rating organization (NRSRO.) Investments in these securities are limited to a maximum of 5 percent with any single issuer and 30% in this category. The maximum maturity of these securities is five years.

4. Bankers Acceptances: Bankers acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchasers are limited to issuers whose short-term debt is rated "A-1" or higher, or the

equivalent, by a NRSRO, and if the issuer has a long-term debt rating, that rating must be in the “A” category or higher by at least one NRSRO. Bankers’ acceptances cannot exceed a maturity of 180 days. A maximum of 40 percent of the Town’s portfolio may be invested in this category and a maximum of 5 percent with any one issuer.

5. Commercial paper of “prime” quality rated “A-1” or higher, or the equivalent, by a NRSRO. In addition, the entity that issues the commercial paper shall meet all of the following conditions in either paragraph (A) or paragraph (B):

   (A) The entity meets the following criteria: (i) Is organized and operating in the United States as a general corporation. (ii) Has total assets in excess of five hundred million dollars ($500,000,000). (iii) Has debt other than commercial paper, if any, that is rated in the “A” category or higher, or the equivalent, by a NRSRO.

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

   Eligible commercial paper shall have a maximum maturity of 397 days or less and not represent more than 10 percent of the outstanding paper of an issuing corporation. A maximum of 25 percent of the Town’s portfolio may be invested in this category and a maximum of 5 percent with any one issuer.

6. Negotiable Certificates of Deposit (NCDs): Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a state-licensed branch of a foreign bank. The amount of the NCD insured up to the FDIC limit does not require any credit ratings. For any amount above the FDIC insured limit, purchases are limited to institutions whose short-term debt obligations are rated “A-1” or higher by at least one NRSRO or whose senior debt is rated in the “A” category or higher, or the equivalent, by a NRSRO. A maximum of 30% of the Town’s portfolio may be invested in this category and a maximum of 5 percent with any one issuer.

7. Certificates of Deposit (CDs) and Time Deposits (TDs): FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California, including United States branches of foreign banks licensed to do business in California. The Town will only invest in financial institutions with a net worth in excess of one million dollars. The amount on deposit shall not exceed the shareholder's equity of the financial institution. To be eligible for purchase, the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided Government Code Section 53635.2. Certificates of Deposit are required to be collateralized as specified under Government Code Section 53630

et. seq. The Town, at its discretion, may waive the collateralization requirements for any portion that is covered by federal insurance. The maximum maturity of a time certificate of deposit shall not exceed five years. A maximum of 30% of the Town's portfolio may be invested in this category and a maximum of five percent with any one issuer.

8. Passbook Deposits: This account shall be maintained solely for the following purposes

   (A) Investment of amounts over $100,000 received too late in the day to invest in other instruments; or

   (B) Investment of amounts under $100,000 for periods of up to ten (10) working days in order to fine-tune cash flow and minimize LAIF transactions in a given month.

   Passbook Deposits are required to be collateralized as specified under Government Code Section 53630 et. seq. The Town, at its discretion, may waive the collateralization requirements for any portion of the deposit that is covered by federal insurance. To be eligible to receive deposits, the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided Government Code Section 53635.2. The Town shall have a signed agreement with the depository per Code 53649 Passbook Deposits are to be used solely as short-term investments not to exceed one year. There is no limitation as to the percentage of the Town's portfolio that may be invested in this category; however, the amount on deposit shall not exceed the shareholder's equity the financial institution.

9. Repurchase Agreements: The Town may enter into repurchase agreements with primary government securities dealers rated in the "A" category or higher by two NRSROs. Counterparties should also have (i) a short-term credit rating of at least "A-1" by a NRSRO; (ii) minimum assets and capital size of $25 billion in assets and $350 million in capital; (iii) five years of acceptable audited financial results; and (iv) a strong reputation among market participants.

   The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying repurchase agreements must be delivered to the Town's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each repurchase agreement must equal or exceed 102 percent of the total dollar value of the money invested by the Town for the term of the investment. For any repurchase agreement with a term of more than one day, the value of the underlying securities must be reviewed on an on-going basis according to market conditions. Market value must be calculated each time there is a substitution of collateral.

The Town or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to a Master Repurchase Agreement. The Town shall properly execute a master repurchase agreement with each counterparty with which it enters into repurchase agreements. Repurchase agreements are to be used solely as short-term investments not to exceed 1 year. A maximum of 30 percent of the Town's portfolio may be invested in this category.

10. Medium Term Notes: Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, 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. Purchases are limited to securities rated in the "A" category or higher, or the equivalent, by a NRSRO. A maximum of 30 percent of the Town's portfolio may be invested in this category and a maximum of 5 percent with any one issuer. The maximum maturity of these securities is five years.

11. Mortgage Pass-Through Securities, Collateralized Mortgage Obligations and Asset-Backed Securities from issuers not defined in sections 1 and 2 of the Acceptable Investment Instruments section of this policy: The Town may purchase such securities provided that they are rated in the "AA" category or higher, or the equivalent, by a NRSRO. Purchases of securities authorized by this section may not exceed 20% of the portfolio, and a maximum of 5 percent of any one issuer. The maximum maturity of these securities is five years.

12. Money Market 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. Sec. 80a-1 et seq.). To be eligible for purchase, the company shall have met either of the following criteria:

    (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

    (B) 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 $500,000,000.

    A maximum of 20 percent of the Town's portfolio may be invested in this category.

13. Local Agency Investment Fund (LAIF): The Local Agency Investment Fund has been established by the State Treasurer for the benefit of local agencies. The Town may invest up to the maximum permitted by LAIF.

14. Shares of Beneficial Interest Issued by a Joint Powers Authority (JPA), provided that;

    (A) The JPA is organized pursuant to California Government Code Section 6509.7 and invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive.
    (B) Each share shall represent an equal proportional interest in the underlying pool of securities owned by the JPA.
    (C) The JPA has retained an investment adviser who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years of experience investing in instruments authorized by Section 53601, subdivisions (a) to (q).

15. **Supranationals:** provided that:
    (A) Issues are unsubordinated obligations issued by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.
    (B) The securities are rated “AA” or higher by a NRSRO.
    (C) No more than 30% of the total portfolio may be invested in these securities.
    (D) No more than 10% of the portfolio per issuer
    (E) The maximum maturity does not exceed 5 years.

Summary of Investment Requirements[1]

Investment Type	**Town Minimum Quality Parameters**	***Code Minimum Quality Parameters***	**Town Maximum % of Portfolio**	***Code Maximum % of Portfolio***	**Town Maximum Maturity**	***Code Maximum Maturity***
U.S. Treasury Obligations	None	*None*	None	*None*	5 Years	*5 Years*
Federal Agency Obligations	None	*None*	35%/Issuer	*None*	5 Years	*5 Years*
Bankers Acceptances	"A-1" and "A" or equivalent	*None*	40% 5%/issuer	*40%* *30%/issuer*	180 Days	*180 Days*
Commercial Paper	"A-1" or equivalent	*"A-1" or equivalent*	25% 5%/ issuer	*25%*	397 Days	*397 Days*
Negotiable Certificates of Deposits	"A" or equiv. rated financial institutions	*None*	30% 5%/issuer	*30%*	5 Years	*5 Years*
Certificates of Deposit & Time Deposits	None	*None*	30% 5%/ issuer	*None*	5 Years	*None*
Passbook Deposits	None	*None*	None	*None*	1 Year	*None*
Repurchase Agreements	"A" rated primary dealers	*None*	30%	*None*	1 Year	*1 Year*
Medium-Term Notes	"A" or equivalent	*"A" or equivalent*	30% 5%/ issuer	*30%*	5 Years	*5 Years*
Money Market Funds	Multiple[2]	*Multiple*[2]	20%	*20%*	N/A	*N/A*
Local Agency Investment Fund	None	*None*	Maximum allowed by LAIF	*$75 million*	N/A	*N/A*
Joint Powers Authority (JPA)	None	*None*	None	*None*	N/A	*N/A*
Municipal Securities	"A"	*None*	30% 5%/issuer	*None*	5 years	*5 years*
Mortgage Pass Through Securities/Collateralized Mortgage Obligations/Asset Backed Securities from issuers not defined in sections 1 and 2 of the Acceptable Investment	"AA"	*"AA"*	20% 5%/issuer	*20%*	5 years	*5 years*

Instruments section of this policy.						
Supranationals	"AA"	*"AA"*	30%	*30%*	5 years	*5 years*

Notes:

1. The table is a summary of the key requirements. Additional requirements may apply as listed under this Policy and California Government Code Section 53601.
2. Must receive the highest rating by two of the three largest NRSROs or the fund must retain an investment advisor who is registered with the SEC and has not less than five years' experience managing money market funds with assets under management in excess of $500 million.

X. PORTFOLIO RISK MITIGATION

A. Diversification

The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

B. Mitigating credit risk in the portfolio

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

1. The diversification requirements included in Section VIII are designed to mitigate credit risk in the portfolio;

2. No more than 5% of the total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities, supranationals, LAIF or money market mutual funds unless otherwise specified in this investment policy.

3. The Town may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or the Town's risk preferences; and

4. If securities owned by the Town are downgraded to a level below the quality required to be compliant with this Investment Policy, making the security ineligible for additional purchases, the following steps will be taken:

   a. Any actions taken related to the downgrade by the investment manager will be communicated to the Administrative Services Director in a timely manner.

   b. If a decision is made to retain the security, the credit situation will be monitored and reported monthly to the Town.

C. Mitigating market risk in the portfolio

Market risk is the risk that the portfolio will decline in value (or will not optimize its value) due to changes in the general level of interest rates. The Town recognizes that, over time, longer-term portfolios achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The Town shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making some longer-term investments only with funds that are not needed for current cash flow purposes. The Town 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 Town, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

1. The maximum stated final maturity of individual securities in the portfolio shall be five years from the date of settlement, except as otherwise stated in this policy;

2. The Town shall maintain a minimum of three months of budgeted operating expenditures in short term investments; and

3. The duration of the portfolio will typically be approximately equal to the duration of an index of US Treasury and Federal Agency Securities with maturities which meet the Town's needs for cash flow and level of risk tolerance (the Benchmark Index) plus or minus 20%.

XI. INELIGIBLE INVESTMENTS

Investments not described herein, including but not limited to common stocks and financial futures contracts and options, are prohibited in this fund. As provided in California Government Code Section 53601.6, the Town shall not invest any funds in inverse floaters, range notes, mortgage derived interest-only strips or in any security that could result in zero interest accrual if held to maturity. The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is prohibited. The purchase of any security not listed in Section VIII, but permitted by the California Government Code, is prohibited unless the Town Council approves the investment either specifically or as a part of an investment program approved by the Town Council.

XII. BANKS AND SECURITIES DEALERS

To the extent practical, the Administrative Services Director shall endeavor to complete investment transactions using a competitive bid process whenever possible. The Town's Administrative Services Director will determine which financial institutions are authorized to provide investment services to the Town. It shall be the Town's policy to purchase securities only from authorized institutions and firms.

The Administrative Services Director shall maintain procedures for the establishing a list of authorized broker/dealers and financial institutions which are approved for investment purposes that are selected through a process of due diligence determined by the Town. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

Institutions eligible to transact investment business with the Town include:

- Institutions licensed by the State of California as a broker-dealer.
- Institutions that are members of a federally regulated securities exchange.
- Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
- Nationally or state-chartered banks.
- The Federal Reserve Bank.
- Direct issuers of securities eligible for purchase.

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

All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the Administrative Services Director with a statement certifying that the institution has reviewed the California Government Code, Section 53600 et seq. and the Town's investment policy.

Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

XIII. EXTERNAL INVESTMENT ADVISERS

Selection of broker/dealers used by an external investment adviser retained by the Town will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, the investment adviser shall make their best efforts 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 as the same original issue price.

XIV. SAFEKEEPING AND CUSTODY

All security transactions entered into by the Town shall be conducted on a delivery-versus-payment (DVP) basis. All cash and securities in the Town's portfolio, including those that are managed by an investment advisor, shall be held in safekeeping in the Town's name by a third party bank trust department, acting as agent for the Town under the terms of a custody agreement executed by the bank and the Town. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) money market mutual funds, since the purchased securities are not deliverable. Evidence of each these investments will be held in the Treasury vault.

XV. REPORTING

The Administrative Services Director will submit a quarterly report to the Town Council within 45 days following the end of the quarter covered by the report. The report will include:

- A list of investment transactions
- Type of Investment
- Issuer
- Date of Maturity
- Interest Rate
- Par and dollar amount invested on all securities
- Current market value of each security and the source of the valuation
- Credit quality of each investment, as determined by one or more NRSROs. A description of the funds, investments, and programs managed by contracted parties (i.e. LAIF, investment pools, outside money managers, and securities lending agents)
- A one-page summary report that shows:
    - Average maturity of the portfolio and modified duration of the portfolio;
    - Maturity distribution of the portfolio;
    - Percentage of the portfolio represented by each investment category;
    - Average portfolio credit quality; and,
    - Time-weighted total rate of return for the portfolio for the prior one month, three months, twelve months and since inception compared to the Town's market benchmark returns for the same periods;
- Statement that portfolio is in compliance with investment policy or the manner in which the portfolio is not in compliance
- Statement denoting ability of Town to meet its expenditure requirements for the next six months, or provide sufficient explanation why money is not available
- Monthly transaction report

XVI. PERFORMANCE

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the Town's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments. The Town will evaluate performance of the portfolio relative to an index of US Treasuries and Agencies with maturities similar to the Town's risk profile and cash flow needs.

XVII. ETHICS AND CONFLICT OF INTEREST

Town officers and employees involved in the investment process shall refrain from engaging in any personal business activity that could conflict with the proper execution of the investment program or impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Administrative Services Director any material financial interests in financial institutions which conduct business within this jurisdiction. They shall further disclose any large personal financial/investment positions that could be related to the performance of the Town's portfolio.

XVIII. INVESTMENT PROGRAM REVIEW

A staff investment committee consisting of the Administrative Services Director and Town Manager will convene at least once a year to review the investment program. Such review shall examine both policy and administrative procedures in the program for possible revision. The committee will review interest rate trends and resultant desirable investment maturity goals consistent with the Town's needs for safety and liquidity in its investment program. This meeting will normally occur in May. A summary of the review findings will be submitted to the Town Council at which time the investment policy for the coming fiscal year will be adopted at a public meeting.

GLOSSARY OF INVESTMENT TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

JOINT POWERS AUTHORITY (JPA). An entity created by two or more public agencies that share a common goal in order to exercise powers common to all members through a joint powers agreement or contract.

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

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

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

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

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

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

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

Market Value. The price at which a security can be traded.

Marking to Market. The process of posting current market values for securities in a portfolio.

Maturity. The final date upon which the principal of a security becomes due and payable. An investment's term or remaining maturity is measured from the settlement date to final maturity.

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

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

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

Mortgage Pass-Through Securities. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

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

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

Nationally Recognized Statistical Rating Organization (NRSRO).
A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

Negotiable CD. A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market.

Placement service deposits. A private service that allows local agencies to invest in FDIC-insured deposits with one or more banks, savings and loans, and credit unions located in the United States. IntraFi (formerly known as CDARS) is an example of an entity that provides this service.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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