



City Council Staff Report

DATE: August 17, 2016

AGENDA ITEM NO: New Business
Agenda Item 6-C.

TO: The Honorable Mayor and City Council

FROM: Joseph Leon, City Treasurer
Annie Yaung, Controller

SUBJECT: 2015-2016 Annual Investment Report

RECOMMENDATION: It is recommended that the City Council:

- (1) Receive and file the 2015-16 Annual Investment report;
- (2) Adopt the City's Investment Policy; and
- (3) Take such additional, related, action that may be desirable.

EXECUTIVE SUMMARY:

The City's Investment Policy requires an annual investment report and a statement of investment policy to be submitted to the City Council for review within 60 days of the fiscal year-end. The attached annual report shows that all investment activities during 2015-16 were conducted according to the City's Investment Policy.

BACKGROUND:

The City Investment Policy was created in 1989 to establish guidelines for investment operations (including City of Monterey Park, Monterey Park Public Financing Authority, and Monterey Park Housing Authority). The investment priorities are in the order of safety, liquidity, and yield. The Policy establishes allowable investments and the maximum maturity for each. The allowable investments include U.S. Treasury securities, State LAIF, LA County pooled investment fund, certificates of deposit, bankers' acceptances, mutual funds and money market mutual funds, federal agency securities, commercial papers, and collateralized savings funds. Additionally, the Policy prescribes an internal control system, which delineates duties and responsibilities for City personnel handling investment operations.

The City's investment operations are under the direction of the City Treasurer. The City's Investment Policy provides the creation of a Treasury Committee, which is comprised of the City Treasurer, City Manager, Director of Management Services, and the Controller to implement the Investment Policy and related procedures. Annually, if there is any recommended change to the Investment Policy, the change is presented to the City Council for approval.

Investment Activities – City

All investment activities during 2015-16 were made according to the Policy. During the year, funds were invested in the Local Agency Investment Fund, certificates of deposits, bank collateralized savings account, and LA County Pooled Investment Fund.

Los Angeles County Pooled Investment Fund (LACPIF) allows local agencies in the County of Los Angeles to deposit excess funds in the Los Angeles County Treasury Pool for the purpose of investment by the Treasurer and Tax Collector of the County. The interest rate for the City's LACPIF account earned very good returns in 2015-2016. As of June 30, 2016, the City has \$79.4 million invested with LACPIF.

Local Agency Investment Fund (LAIF) was created by statute in 1977. It is a pooled investment program for local agencies and special districts to participate. LAIF is managed by the State and investment securities are purchased in accordance with the Government Code Sections 16430 and 16480.4. Funds invested with LAIF are backed 100% by the State. LAIF has 2,464 participants and \$22.7 billion in its portfolio. As of June 30, 2016, the City has \$317,107 invested with LAIF due to low interest rates.

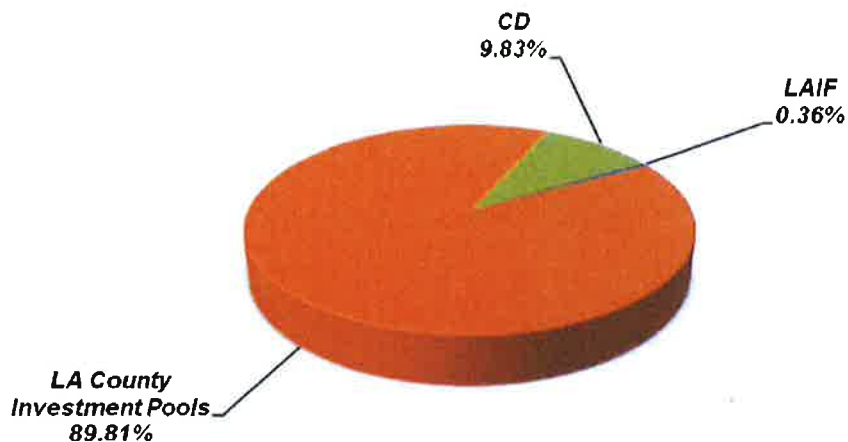
Certificates of Deposits (CD) Certificates of Deposits are time deposits with banks or savings and loans. Federal Depository Insurance Corporation (FDIC) insures each depositor up to \$250,000. The City invests CDs with California State or nationally chartered financial institutions. As of June 30, 2016, the City has forty CDs (see Exhibit A).

Investment Composition

The City invests its idle cash from all operating funds on a pooled basis to maximize returns. Earnings are allocated to each fund based on the average cash balance. Total investment balance for the City as of June 30, 2016 was \$88,418,339.

<u>Instruments</u>	<u>Balance</u>	<u>Interest Rate</u>	<u>Maturity</u>
LAIF	\$ 317,107	0.47%	1-day
LACPIF	79,406,232	0.93%	1-day
CDs	8,695,000	0.70% - 1.70%	8/16 - 4/19
Total	<u>\$ 88,418,339</u>		

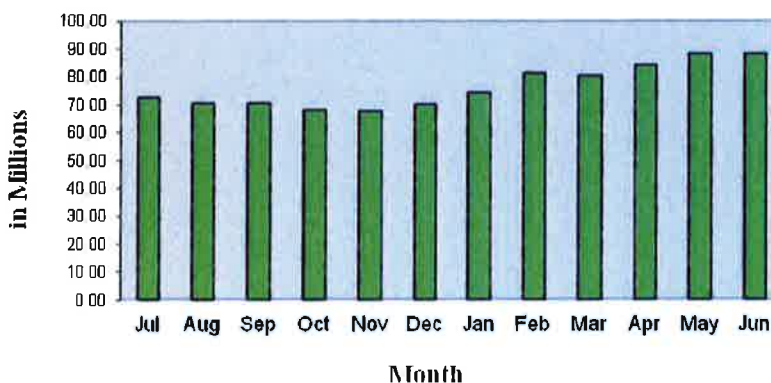
**City Investment Portfolio
As of 06/30/2016**



Investment Balance

Timing of revenue collections, such as property tax, business licenses, and franchise tax, affects the monthly investment balance during the year. In 2015-16, monthly investment varied from \$67 million to \$88 million. The average balance was \$76 million.

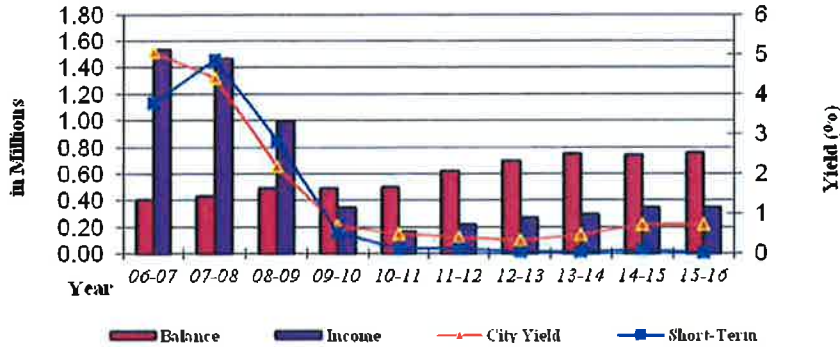
*Average Investment Balance
Fiscal Year 2015-16*



10-Year City Investment Summary

The chart below shows the City's investment balance, interest income, yield, and the short-term investment rate during the past 10 years (for the purpose of comparison, short-term investment rate shown is the three-month treasury bill rate). The City's average investment yield has exceeded the three-month treasury yield in each of the past 10 years.

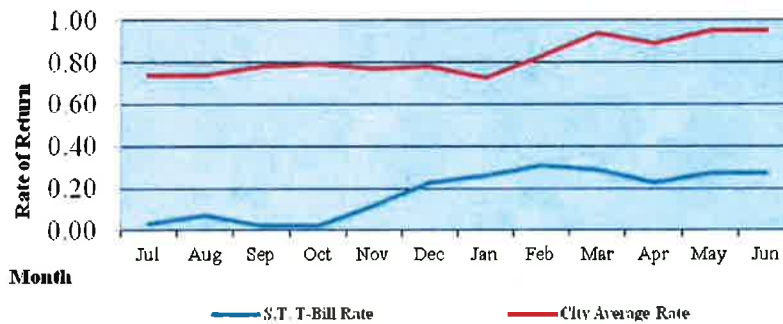
**10-Year Investment Summary
From 06-07 to 15-16**



Investment Performance

The 2015-16 interest earning for the City was approximately \$629,000 and the average yields were 0.83%. The City invested 0.36% of its funds into local government investment pools (LAIF), 89.81% into Los Angeles County Pooled Fund (LACPIF), and 9.83% into certificates of deposits, which all can be effective mechanisms for obtaining liquidity, diversified portfolios, and competitive yields. Specifically, this year, the better performance from the investment in the County pooled funds and Certificates of Deposit have provided the City higher investment earnings. The following graph exhibits City investment rates vs. the three-month T-bill rates for 2015-16.

**Investment Performance
FY 2015-16**



Investment Policy

The City's investment policy provides the ideal framework to itemize investment alternative, to detail the benefits and risks of these alternatives, and to recommend the maximum percentage allocation, the selection process, the risk framework and the allowable maturities of the investment alternatives. This Investment Policy is intended to provide guidelines for the prudent investments of the City funds and to outline the policies for maximizing the efficiency of the City's cash management system.

The vast majority of public-sector cash management operations are governed by state laws and provisions that determine the type of investment product and manner in which the City manages its funds. Moreover, the City's allowable investments are more conservative and restricted than those of the state types.

Investment Policy Certification Award

The City has always received recognition from the Municipal Treasurers' Association (MTA) of United States & Canada for Investment Policy Certification. The certification award represents the highest level of investment policy guidelines and confirms that the City's investment operations, as guided by the Investment Policy, effectively safeguard its capital while providing operating liquidity and market-rate earnings. MTA recommends re-certification of the investment policy every three years to ensure the policy contains updated practices and/or laws pertaining to investment. The latest certification award was received in March 2014.

Conclusion

For the Fiscal Year 2016-2017, the Committee will seek permitted investment instruments according to the investment policy, and take a balanced approach consistent with the guidelines of safety, liquidity, and yield as established by the Council adopted Investment Policy. The ultimate goal is to enhance the economic status of the City while protecting its assets.

Respectfully submitted by:



Joseph Leon
City Treasurer

Prepared by:



Annie Yaung, CPFA
Controller

Approved by:



Paul L. Talbot
City Manager



Chu Thai
Director of Management Services

Reviewed by:



Karl H. Berger
Assistant City Attorney

Attachments:

- 1) Investment Policy
- 2) Exhibit A – List of Certificates of Deposit

**RESOLUTION NO. 11860
SA RESOLUTION NO. SA-126**

**A JOINT RESOLUTION OF THE CITY OF MONTEREY PARK AND
SUCCESSOR AGENCY TO MONTEREY PARK
REDEVELOPMENT AGENCY ADOPTING AN INVESTMENT
POLICY AND AUTHORIZING THE TREASURER TO IMPLEMENT
THE POLICY.**

The City Council, acting on behalf of the City of Monterey Park and the Successor Agency to the Monterey Park Redevelopment Agency, (collectively, "City Council") does resolve as follows:

SECTION 1: The City Council finds and declares as follows:

- A. Government Code § 53646 allows the Treasurer, or Treasurer's designee, to provide the City Council an investment policy for consideration;
- B. Government Code § 53607 allows the City Council to delegate investment authority to the Treasurer, who may then designate persons to implement such authority, on an annual basis; and
- C. The Treasurer proposed that the City Council consider the Investment Policy attached as Exhibit "A," and incorporated by reference, for Fiscal Year 2016-17 ("Policy").

SECTION 2: After due consideration, the City Council finds that the Policy conforms with applicable law and adopts it for use during Fiscal Year 2016-17 on behalf of the City of Monterey Park and the Successor Agency to the Monterey Park Redevelopment Agency (collectively, "City"). The Treasurer and chief fiscal officer (Director of Management Services or Controller) are authorized to implement the Policy for this time period on the City's behalf.


SECTION 3: Supersession of previous investment policies does not affect any penalty, forfeiture, or liability incurred before, or precludes prosecution and imposition of penalties for any violation occurring before this Resolution's effective date. Any such superseded part will remain in full force and effect for sustaining action or prosecuting violations occurring before the effective date of this Resolution.

SECTION 4: The City Clerk is directed to certify the adoption of this Resolution.

SECTION 5: The City Manager, or designee, is authorized to implement this Resolution in accordance with applicable administrative policies and procedures that may be promulgated by the city manager.

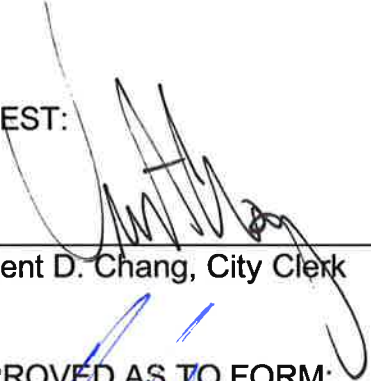
SECTION 6: This Resolution will become effective immediately upon adoption and remain effective unless superseded by a subsequent resolution.

PASSED AND ADOPTED this 21st day of September, 2016



Mitchell Ing, Mayor
Monterey Park, California

ATTEST:



Vincent D. Chang, City Clerk

APPROVED AS TO FORM:
Mark D. Hensley, City Attorney




Karl H. Berger
Assistant City Attorney

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss.
CITY OF MONTEREY PARK)

I, VINCENT D. CHANG, City Clerk of the City of Monterey Park, California, do hereby certify that the foregoing Resolution No. 11860 / SA-126 was duly regularly adopted by the City Council of the City of Monterey Park at a meeting held on the 21st day of September, 2016, by the following vote:

Ayes: Council Members: Chan, Liang, Lam, Real Sebastian, Ing
Noes: Council Members: None
Abstain: Council Members: None
Absent: Council Members: None

Dated this 21st day of September, 2016



Vincent D. Chang, City Clerk

City of Monterey Park



Investment Policy

Revised

September 21, 2016

CITY OF MONTEREY PARK INVESTMENT POLICY

I. PURPOSE

This Statement is intended to provide guidelines for prudent investment of the City's temporary idle cash (including City of Monterey Park, Monterey Park Public Financing Authority, and Monterey Park Housing Authority) and outline the policies for maximizing the efficiency of the City's cash management system. The ultimate goal is to enhance the economic status of the City while safeguarding its assets.

The Investment Policy complies with Government Code § 53600, *et seq.* However, to meet the City's needs, the investment parameters set forth in the City's policy are more conservative than those allowed by the Government Code.

II. SCOPE

The policy directs the investment of the City's temporarily idle monies for all funds that are accounted for in the City's Comprehensive Annual Financial Report including the general fund, special revenue funds, fiduciary funds, and proprietary funds. Employee deferred compensation, long-term debt proceeds and reserves held by a Trustee and invested pursuant to contractual agreement, or retirement investments held by a trustee (such as CalPERS) are not managed by the City and are not subject to this Investment Policy.

This Investment Policy also directs all investments related to the Monterey Park Public Financing Authority and the Monterey Park Housing Authority. For purposes of investments made for the Monterey Park Public Financing Authority and the Monterey Park Housing Authority, all references made to the City Treasurer also mean the appointed Treasurer(s) of each respective entity.

III. INVESTMENT OBJECTIVES

Criteria for selecting investments and the order of priority are:

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 of Principal is the foremost objective of the City's investment program. To attain this objective, the City will select only those investments that ensure the preservation of capital in the overall portfolio and to mitigate credit risk and market risk.
2. **Liquidity**: This refers to the ability to "cash in" at any moment in time with a minimal chance of losing principal or interest. Liquidity is an important investment quality, especially when the need for unexpected funds occurs. The objective is to remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated within 180 days.
3. **Yield**: Yield is the potential dollar earnings an investment can provide, also referred to as the rate of return. The objective is to attain a rate of return that equals or exceeds the yield for the three-month Treasury Bill.

IV. TREASURY COMMITTEE

The Policy provides for the creation of a Treasury Committee ("The Committee"). The Committee is comprised of the City Treasurer, the City Manager, the Director of Management Services, and the City Controller. The Committee meets periodically and performs the following:

- Development and implementation of investment policy
- Development and implementation of investment procedures to establish internal controls, investment reporting, recordkeeping, accounting and processes for movement of funds
- Formulation of investment strategy
- Evaluation of financial institutions
- Development and implementation of controls to ensure compliance with State law and the City's Investment Policy
- Selection of investment managers, when appropriate

V. INVESTMENT PROCEDURES AND RESPONSIBILITY

- An Investment Procedures Manual is established to guide staff with day-to-day investment operations. The Manual includes procedural elements such as cash position review, investment selection, investment transaction, investment recording, and investment reporting.
- Within the constraints set forth in this policy, the City Treasurer has the authority to oversee the citywide investment operations.
- The City Council delegates the joint authority to the Director of Management Services and the Controller to advise and obtain approval from the City Treasurer, before opening new bank accounts, investment and cash management accounts, and other credit enhancement products, closing bank accounts, investment and cash management accounts, and signing all documents related thereto.
- The Director of Management Services and the Controller are responsible for the following implementation and supervision of investment controls: approving daily investment transactions, developing the projections of the City's cash requirements for operating needs, reviewing the liquidity position of the investment portfolio, ensuring that the citywide cash position is consistent with operating requirements, preparing appropriate investment reports for review by the Committee, and developing, implementing and monitoring controls over investments. The Senior Accountant and the Account Clerk shall assist in the report preparation, execution of and recordkeeping for investment transactions.

ETHICS AND CONFLICTS OF INTEREST

VI. ALLOWABLE INVESTMENTS

- All investments must conform with Government Code § 53600, et seq. and this investment policy.
- See the list of allowable investments (Investments) in the matrix provided in Attachment A, which is incorporated by reference. It should be noted that any newly developed derivative of an allowable investment that is not specifically mentioned in the policy must be recommended by the City Treasurer for inclusion in the policy and any amendments to the policy must be submitted to the City Council for approval.

VII. SELECTION OF FINANCIAL INSTITUTIONS AND DEALERS

- The Treasury Committee will maintain an approved list of primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) and government-sponsored investment pools. The Committee will review and amend the approved list periodically to ensure that the institutions continue to meet the selection criteria.
- A copy of the City's Investment Policy will be submitted to all dealers, investment managers and fiscal agents who manage City monies. The City must obtain an annual certification evidencing that they (1) have reviewed the City's investment policies and objectives, (2) are familiar with the City's investment constraints and (3) have complied with the provisions contained in this policy.
- Purchases of investments must be made directly from the issuer, with the exception of the State LAIF or the County Pool investments, from a member of a federally regulated securities exchange, from a national or state-chartered bank, or from a brokerage firm.
- Only commercial banks and savings and loan associations that demonstrate financial strength and are insured by the federal government may be selected to provide investment services.
- Other financial institutions must be selected using the following selection criteria: financial strength, reputation, area of expertise and ability to conform to the City and state-mandated investment parameters.

VIII. SAFEKEEPING AND CUSTODY

- Investments evidenced by physical or book-entry securities must be secured through third-party custody and safekeeping procedures or under a tripartite agreement (does not apply to insured certificates of deposit, money market funds and the Local Agency Investment Fund).
- All transactions described above, where applicable, must be executed on a delivery versus payment basis.
- The custodian will hold assets until the investments mature or the bank receives a request from the City to dispose of the securities.

- Bearer instruments can only be held through third-party institutions.

INVESTMENT POOLS/MONEY MARKET MUTUAL FUNDS/BANK SAVINGS FUNDS

The City will conduct a thorough investigation before investing in the State Local Agency Investment Fund (LAIF), the Los Angeles County Pool Investment Fund (LACPIF) and/or any money market mutual fund. Periodically, LAIF, LACPIF and all mutual funds will be required to respond to an investment pool questionnaire to ensure that the criteria as qualified investment vehicles for the City remain unchanged.

IX. COLLATERALIZATION

Certificates of Deposits (CD) - The City will require any commercial bank or savings and loan association to deposit eligible securities with an Agent of a Depository approved by the California Department of Business Oversight, Division of Financial Institutions, to secure any uninsured portion of a non-negotiable certificate of deposit:

- The value of eligible securities as defined pursuant to Government Code Section 53652, pledged against a certificate of deposit must be equal to 150% of the face value of the CD if the securities are classified as mortgages and 110% of principal of the CD for all other classes of security, if the Certificate of Deposit is not FDIC insured or goes over the FDIC \$250,000 limit.
- Financial Institutions must mark the value of the collateral to market monthly and increase or decrease the collateral to satisfy the ratio requirement described above.

X. MATURITY

- The City cannot make any new investments in instruments with stated remaining maturities that exceed the terms specified in attached Exhibit A ("Allowable Investments"), which is incorporated by reference, at the time of purchase. Overall, all investments must follow the City's Investment Policy.
- Maturities of investment instruments in the portfolio will be staggered as much as practical and shall be consistent with projected cash requirements.

XI. LIQUIDITY

- All forecasted operating requirements must be satisfied by maintaining an adequate level of liquidity in the portfolio.
- Maturities will be selected to mature before or match the timing of the City's projected cash needs.
- The marketability of a security is an important criterion in selecting an investment.
- A liquidity base equal to the forecasted cash needs for 180 days should be maintained whenever practical.

XII. DIVERSIFICATION

- Within the parameters established by Section III, Investment Selection Criteria, and Section VI, Allowable Investments, investments should be diversified by security type and institution.

XIII. COMPETITIVE BIDDING

- The purchase or sale of securities should be made on the basis of competitive bids. A minimum of three bids, from a list of eligible dealers and/or banks should be obtained and documented. Exceptions to this policy may be granted by the majority of the Committee members when competitive bids are not practical. Reasons for granting exceptions to the competitive bid process should be stated.

XIV. REPORTING

- The Treasurer must report to the City Council on a monthly and annual basis.
- The monthly investment report submitted to the City Council will contain the following:
 - An investment inventory including types and amounts of investments, issuing financial institutions and maturities

- Average maturity of the portfolio
 - Average total yield to maturity of the portfolio
 - For marketable securities only including current market value of investments with maturities of more than 12 months
 - A statement indicating that the City can meet its expenditure requirements for the upcoming 180 days
 - A statement indicating that the portfolio complies with the City's Investment Policy
 - Percent of portfolio invested by type of instrument
 - Comparison of portfolio performance to the average yield rate for the three-month treasury bill
 - Written explanations for any variances to policy
- The Annual Investment Report must provide a summary of the annual investment activities and include a proposed statement of Investment Policy to be approved by the City Council during the first sixty days of the fiscal year.

XV. PRUDENCE

- The City of Monterey Park will follow the prudent investor standard of Government Code § 53600.3. Prudent Investor Standard: Investments must be made with judgment and care – under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.
- Investment officers acting in accordance with this Investment Policy and written procedures and exercising due diligence are relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely and accurate fashion as required by this Policy and procedures and appropriate action is taken to control adverse developments.

XVI. INTERNAL CONTROLS

- Internal controls must be established and documented in writing. The controls must be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees and officers of the City. Controls deemed most important include: separation of duties; separation of transaction authority from accounting and recordkeeping; custodial safekeeping; clear delegation of authority; specific limitations regarding securities losses and remedial action; control over wire transfers such as dual authorization; minimizing the number of authorized investment officials; documentation of transactions and strategies; and a code of ethics standard.
- The City's investment procedures Manual will establish and maintain an internal control structure designed to ensure that the assets managed under the scope of the Policy are protected from loss, theft, or misuse. The internal control structure will provide reasonable assurance that these objectives are met.
- As part of the City's annual audit, the City's external auditor will review the City's investment activities to ensure compliance with the Investment Policy.

XVII. INVESTMENT GUIDELINES POLICY ADOPTION

- At the direction of the Treasurer, the City's Investment Policy will be reviewed and updated annually by the Committee to reflect changes in applicable law, general market conditions or to provide further clarification of the City's policies. The Investment Policy may be amended annually by resolution of the City Council. Any amendments to the Policy must be approved by the City Council.

Glossary of Terminology

Allowable Investments: A list of permitted investments by investment type maintained as a component to an investment policy. Allowable investment listings will generally include descriptions or parameters for investment diversification ratios, terms of maturity, and quality ratings.

Bankers' Acceptance (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institutions guarantee payment of the bill, as well as the issuer.

BID: The price offered for securities.

Book Entry Securities: All U.S. Treasury and Federal Agencies are maintained on computerized records at the Federal Reserve; now known as "wireable" securities.

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

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.

Collateralized Bank Deposits: Non-negotiable Certificate of Deposit issued by a nationally or state - chartered bank or association or a State - licensed branch or a foreign bank (insured by the federal government); Bank Collateralized Savings.

Commercial Paper (CP): An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

Cost: The purchase price of an investment.

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

Credit Risk: The risk of loss of principal and interest due to failure of the security issuer or broker.

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

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. 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.

Derivatives: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

Discount: The difference between the cost price of a security and its 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&L's, small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to \$ 250,000 per deposit for anyone issuer with maturity on or before 12/31/2013.

Federal Open Market Committee (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., twelve Regional Banks and about 5,700 commercial banks that are members of the system.

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.

Los Angeles County Pooled Investment Fund (LACPIF): Government Code § 53684 allows local agencies in the County of Los Angeles to deposit excess funds in the Los Angeles County Treasury Pool for the purpose of investment by the Treasurer and Tax Collector of the County.

Local Agency Investment Pool (LAIF): The aggregate of all funds from California political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Market Risk: The risk that the market value and interest earnings of an investment or a portfolio will fall due to changes in general 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.

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

Par Value: The amount that will be realized upon maturity of an investment.

Portfolio: Collection of securities held by an investor.

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

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

Qualified Public Depositories: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. Or income earned on an investment, expressed as a percentage of the cost of that investment.

Rule 15C3-1: See Uniform Net Capital Rule.

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

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.

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

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

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

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as non-member broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15:1; 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.

Weighted Average Rate of Return: Rate of return calculated based on interest earnings and the length of actual holding for each individual security.

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

Zero Coupons: Securities that have no periodic interest payments and are sold at a deep discount from face value. For the purposes of the Monterey Park Investment Policy, zero coupons reference U.S Treasury issues.

**CITY OF MONTEREY PARK
FINANCIAL INSTITUTIONS**

Section I – Certificates of Deposit and Collateralized Bank Deposits

All California or nationally chartered banks and savings and loans covered by the Federal Deposit Insurance Corporation.

Section II – Government Investment Pools

Local Agency Investment Fund (State of California) Investment Pools (LAIF)
Los Angeles County Pooled Investment Fund (LACPIF)

Section III – “Primary” or “Regional” Security Dealers

<u>Name</u>	<u>Address</u>
Bank of the West/BNP Paribas (City’s Servicing Bank)	13300 Crossroads Parkway North City of Industry, CA 91746 (800) 676-4549
Bank of America Securities Inc.	300 S. Grand Avenue, 19 th Floor Los Angeles, CA 90071
Morgan Stanley	245 Lytton Avenue, #200 Palo Alto, CA 94301 (800) 755-8081
Multi-Bank Securities, Inc.	6 Sea Island Drive Newport Beach, CA 92660 (800) 337-3467
Wells Fargo Bank, N.A	333 S. Spring Street Los Angeles, CA 90013 (213) 972-0828
Merrill Lynch Government Securities, Inc.	350 S. Grand Avenue, 28 th Fl. Los Angeles, CA 90071 (213) 236-2047

ALLOWABLE INVESTMENTS

Investment Types	CITY AUTHORIZED			STATE CODE		
	Maximum % of Portfolio	Maximum Maturity	Minimum Quality	Maximum % of Portfolio	Maximum Maturity	Minimum Quality
<u>Local Agency Bonds</u> Bonds issued by the City, including bonds payable solely out of revenues from a revenue producing property owned, controlled, or operated by the City or authority of the City	None	5 years	None	None	5 years	None
<u>U.S. Treasury Obligations</u> - United States Treasury Notes, Bonds, Bills or other certificates of indebtedness backed by the US government - U.S. Treasury Zero Coupons	None	5 years	None	None	5 years	None
<u>State Obligations - CA and Others</u> Bonds, notes or other evidence of indebtedness of any local agency within this state	None	5 years	None	None	5 years	None
<u>U.S. Agency Obligations</u> Discount notes or notes issued by Agencies of the Federal Government	None	5 years	None	None	5 years	None
<u>Collateralized Bank Deposits</u> Non - negotiable Certificate of Deposit issued by a nationally or state - chartered bank or association or a State - licensed branch or a foreign bank (insured by the federal government); Bank Collateralized Savings.	None	5 years	None	None	5 years	None
Medium-term notes issued by corporations	30%	5 years	"A" or better ranking by nationally recognized rating service U.S. domiciled corporations or U.S. licensed depository	30%	5 years	"A" or better ranking by nationally recognized rating service U.S. domiciled corporations or U.S. licensed depository
<u>Local Agency Investment Fund (LAIF)</u> State of California Local Agency Investment Fund (LAIF) or other Local Government Investment Pools established by public entities	None	Not applicable	None	None	Not applicable	None

ALLOWABLE INVESTMENTS

Investment Types	CITY AUTHORIZED			STATE CODE		
	Maximum % of Portfolio	Maximum Maturity	Minimum Quality	Maximum % of Portfolio	Maximum Maturity	Minimum Quality
Los Angeles County Pooled Investment Fund California Government Code Section 53684 allows local agencies in the County of Los Angeles to deposit excess funds in the Los Angeles County Treasury Pool for the purpose of investment by the Treasurer and Tax Collector of the County	10% of LACPIF pool balance	None	None	Not applicable	None	None
Mutual Funds and Money Market Mutual Funds	20%	Not applicable	Highest ranking by not less 2 largest rating services Have an SEC registered investment advisor with more than 5 years' experience Assets under management greater than \$500 million	20%	Not applicable	Highest ranking by not less 2 largest rating services Have an SEC registered investment advisor with more than 5 years' experience Assets under management greater than \$500 million
"Banker's acceptance"	40% of portfolio (no more than 30% in any one commercial bank)	180 days	None	40% of portfolio (no more than 30% in any one commercial bank)	180 days	None
Commercial Paper	40% of portfolio for counties, cities and other local agencies (No more than 10% of agency's money in the commerial paper of any one corporate issuer)	270 days	"A" or higher rating for issuer's debt within U.S. corporations and have assets in excess of \$500 million.	40% of portfolio for counties, cities and other local agencies (No more than 10% of agency's money in the commerial paper of any one corporate issuer)	270 days	"A" or higher rating for issuer's debt within U.S. corporations and have assets in excess of \$500 million.
Repurchase Agreements	Not Allowable	Not Allowable	Not Allowable	None	1 year	None
Negotiable Certificates of Deposit Negotiable Certificates of Deposit issued by a nationally or State - chartered Bank, a federal association, or a State - licensed branch of a foreign - owned bank (insured by the federal government).	30%	5 years	None	30%	5 years	None

ALLOWABLE INVESTMENTS

Investment Types	CITY AUTHORIZED			STATE CODE		
	Maximum % of Portfolio	Maximum Maturity	Minimum Quality	Maximum % of Portfolio	Maximum Maturity	Minimum Quality
Financial Futures and Financial option contracts.	None	5 years	None	None	5 years	None
Reverse Repurchase Agreements and Securities Lending Agreements	Not Allowable	Not Allowable	Not Allowable	20% of the base value of the portfolio	92 days	None
<u>Mortgage Pass-Through Securities</u> · Mortgage-backed securities (Corporate issued)	Not specified			Not specified		
· Diversified Management Companies	20%	5 years	"A" or better ranking by nationally recognized rating service	20%	5 years	"A" or better ranking by nationally recognized rating service