CITY OF COMMERCE

STATEMENT OF INVESTMENT POLICY

I. INTRODUCTION

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities. Related activities which comprise good cash management include the expeditious collection of revenue, cost-effective banking relations, and investment opportunity.

II. OBJECTIVES

A. Safety: It is the primary duty and responsibility of the Treasurer to protect, preserve and maintain cash and investments placed in his/her trust on behalf of the citizens of the community.

B. Liquidity: An adequate percentage of the portfolio should be maintained in liquid short-term securities which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investments in securities with active secondary or resale markets is highly recommended. Emphasis should be on marketable securities with low sensitivity to market risk.

C. Yield: Yield should become a consideration only after the basic requirements of safety and liquidity have been met.

D. Prudence: The agency adheres to the guidance provided by the “prudent man rule,” “investment shall be made with the exercise of that degree of 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."

III. DELEGATION OF AUTHORITY

The City Council has delegated the responsibility of managing the investment program of the City to the City Treasurer. The only officials authorized to undertake investment transactions on behalf of the City are the City Treasurer, Deputy City Treasurer or their designee. Those authorized persons shall establish and carry out written procedures and internal controls for the operation of the investment program consistent with this investment policy.

IV. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program, or impairs their ability to make impartial investment decisions. The City Treasurer and Deputy City Treasurer are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission.

V. PUBLIC TRUST

Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

VI. INVESTMENT INSTRUMENTS

The authorized investment instruments to be utilized are:

A. Securities of the U. S. Government, or its agencies.

B. Certificate of Deposit placed with commercial Banks and Savings & Loans.

C. Bankers Acceptance

D. Commercial Paper

E. Repurchase Agreements

F. State of California Local Agency Investment Fund (LAIF)

G. Money Market Mutual funds

H. Other investments that are or may become legal investments through the California Government Code.

VII. INTERNAL CONTROLS

A system of internal control shall be established and documented in writing. Controls deemed most important include: Control of collusion, separation of duties, separating transaction authority from accounting, clear delegation of authority, minimizing the number of authorized Investment Officials and documentation of transactions.

VIII. BANKERS AND SECURITIES DEALERS

The Treasurer shall consider the credit-worthiness of institutions. The Treasurer shall continue to monitor financial institutions credit characteristics and financial history throughout the period in which agency funds are deposited or invested.

IX. SAFEKEEPING OF SECURITIES

The City shall have a safekeeping financial institution as an independent third party custodian of securities. Collateral should always be at safekeeping. The City shall not purchase from or sell securities to the financial institution responsible for safekeeping of the City's securities. Securities at safekeeping shall be held in the City's name.

Chapter 59, Statues of 2014 (AB 1933) amended and added to Government Code Section 53601 authorization to the legislative body of a local agency to invest in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank (supranationals). The maximum remaining maturity for these obligations is five years or less, and they must be eligible for purchase and sale within the United States. In addition, these investments must be rated "AA" or better by an NRSRO and not exceed 30 percent of the agency's portfolio.

X. RISK TOLERANCE

The Government Agency recognizes that investment risks can result from issuer defaults or carious technical complications. Portfolio diversification is employed as a way to control risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio.

XI. REPORTING

The Treasurer shall submit a monthly investment report to the Governing Body upon request. This report shall be submitted within 30 days of the end of the month and shall include all required elements of the monthly report as prescribed by Government Code Section 53646. Additional information may be included in the monthly report but it is not required by the Government Code.

XII. INVESTMENT POLICY REVIEW

The City's independent auditor's shall annually review and make recommendations regarding the City's investment policies to the extent considered necessary as required by generally accepted auditing standards as they relate to the annual financial audit which included cash and investments.

XIII. INVESTMENT POLICY ADOPTION

The City of Commerce Investment Policy shall be adopted annually by resolution of the City Council. The policy shall be reviewed annually by the City Treasurer and any modifications made thereto must be approved by the City Council.

APPENDIX A
GLOSSARY OF INVESTMENT TERMS

Because the Investment Policy of the City of Commerce is available to the public, related terminology is included as a part of this policy.

ACCRUED INTEREST is interest earned but not yet received.

ACTIVE DEPOSITS are funds that are immediately required for disbursement.

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

ASKED PRICE is the price a broker dealer offers to sell securities.

AVERAGE LIFE is the average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding

BANKERS ACCEPTANCES are short-term credit arrangements to enable businesses to obtain funds to finance commercial transactions. They are time drafts drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. By its acceptance, the bank becomes primarily liable for the payment of the draft at maturity. An acceptance is a high grade negotiable instrument. Acceptances are purchased in various denominations for 30 to 180 days. The interest is calculated on a 360 day discount basis similar to Treasury Bills. Local agencies cannot invest more than forty per cent of their surplus money in Bankers Acceptances.

BASIS POINT – One basis point is one hundredth of one percent (.01% or 0.0001).

BID PRICE is the price a broker dealer offers to purchase securities.

BOND is 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.

BROKER is someone who brings buyers and sellers together and is compensated for his/her service.

CALLABLE BOND is a bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

CALL PRICE is the price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

CALL RISK is the risk to a bondholder that a bond may be redeemed prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

CASH SALE/PURCHASE is a transaction that calls for delivery and payment of securities on the same day that the transaction is initiated.

CERTIFICATES OF DEPOSIT are time deposits with financial institutions which earn interest at a specified rate for a specified term and not to exceed 30% of surplus funds. Liquidation of the CD prior to maturity incurs a penalty. There is no secondary market for those instruments; therefore, they are not liquid. They are classified as public deposits and financial institutions are required to collateralize them.

Non-negotiable CD's of $100,000 are insured respectively by the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Share Insurance fund (NCUSIF). Local agencies can now invest in certificate of deposits with banks for more than $100,000 with full FDIC insurance coverage.

COLLATERAL is securities, evidence of deposits or other property which a borrower pledges to secure repayment of a loan. It also refers to securities pledged by a bank to secure deposits of public monies. In California, repurchase agreements, reverse repurchase agreements, negotiable CDs purchased at a California institution, and public deposits must be collateralized. Collateral acceptable to the City must be U.S. Treasury or Federal Agency issues. This type of collateral must equal 110% of the deposit being secured.

COMMERCIAL PAPER is a short term, unsecured, promissory note issued by a corporation to raise working capital. These negotiable instruments may be purchased at a discount to par value or interest bearing. Eligible commercial paper is issued by corporations organized and operating within the United States and having total assets in excess of $500 million. This would include firms such as General Motors Acceptance Corporation, American Express, Bank of America, Wells Fargo Bank, et cetera.

Local agencies are permitted to invest in commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical-rating organization. Purchases of eligible commercial paper may not exceed 270 days maturity nor exceed 25 % of the local agency's surplus funds.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) is the official annual financial report for the City. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principals (GAAP).

CREDIT ANALYSIS is a critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

CURRENT YIELD is the interest paid on an investment expressed as a percentage of the current price of the security.

CUSTODIAN is a bank or other financial institution that keeps custody of stock certificates and other assets.

DELIVERY VS. PAYMENT (DVP) is delivery of securities with a simultaneous exchange of money for the securities.

DEPOSITS

Interest-bearing active deposits are money market accounts at a financial institution (i.e., bank, savings and loan, credit union). These accounts are demand accounts (i.e., checking accounts) with restricted transaction activity.

A Passbook savings account is similar to an inactive deposit but without a fixed term. The interest rate is much lower than CD's, but the savings account allows flexibility. Funds can be deposited and withdrawn according to daily cash needs.

DIVERSIFICATION is dividing investment funds among a variety of securities offering independent returns and risk profiles.

DURATION is 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.

FAIR VALUE is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FANNIE MAE is a trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

FEDERAL AGENCY INSTRUMENTS are issued by U.S. Government agencies or quasi-government agencies. These issues are guaranteed directly or indirectly by the United States Government. Examples of these securities are Federal Home Loan Bank (FHLB) notes, Federal National Mortgage Association (FNMA) notes, Federal Farm Credit Bank (FFCB) notes. Collateralized mortgage obligations issued by a federal agency may not be purchased by the City.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) is insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently $1000,000) per account.

FEDERAL RESERVE SYSTEM is 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.

FINRA (THE FINANCIAL INDUSTRY REGULATORY AUTHORITY) is a self-regulatory organization (SRO) of brokers and dealers in the securities business. Its regulatory mandate includes authority over all security firms that purchase, distribute, inventory and broker mutual fund shares, stocks, and all forms of debt securities issued for investment to the public. This organization answers to the SEC. Any individual of a securities firm the City chooses to execute investment transactions with must be licensed under FINRA.

FREDDIE MAC is a trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

GINNIE MAE is a 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) is a standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

GOVERNMENT SECURITIES is an obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

INACTIVE DEPOSITS (IDLE FUNDS) are funds not immediately needed for disbursement.

INTEREST RATE is the annual yield earned on an investment, expressed as a percentage.

INTEREST RATE RISK is the risk associated with declines or rises in interest rates that cause an investment in a fixed-income security to increase or decrease in value.

INVESTMENT POLICY is a concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

INVESTMENT-GRADE OBLIGATION is an investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating City.

LIQUIDITY refers to the ease and speed with which as asset can be converted into cash without loss of value. In the money market, a security is said to be liquid if the spread between the bid and asked price is narrow and reasonably sized trades can be done at those quotes. U.S. Treasury bills are very liquid.

LOCAL AGENCY INVESTMENT FUND (LAIF) is a special fund in the State Treasury which local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is $5,000, in multiples of $1,000 above that, with a maximum of $30 million for any agency. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via direct deposit to the LAIF account. The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of one per cent of the earnings.

MARKET RISK is the risk that the value of a security will rise or decline as a result of changes in market conditions.

MARKET VALUE is the current market price of a security. The price at which a security is trading and could presumably be purchased or sold.

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

MEDIUM TERM (ALSO KNOWN AS MID-TERM) are maturities of two to one years.

MOODY’S (MOODY’S INVESTMENT SERVICE, INC.) is one of the three best-known rating agencies in the United States. The others are Standard and Poor’s Corporation (S&P) and Fitch IBCA, Inc. (Fitch).

MUTUAL FUNDS are referred to in the Government Code, Section 53601(k), as “shares of beneficial interest issued by diversified management companies.” The Mutual Fund must be restricted by its by-laws to the same investments as the local agency by the Government Code. These investments are Treasury issues, Federal Agency issues, Bankers Acceptances, Commercial Paper, Certificates of Deposit and Repurchase Agreements. The quality rating and percentage restrictions in each investment category applicable to the local agency also apply to the Mutual Fund. Other restrictions apply.

NEW ISSUE is a term used when a security is originally “brought” to market.

NOTE is a written promise to pay a specified amount to a certain entity on demand or on a specified date.

PAR VALUE is the amount of principal that must be paid at maturity. It is also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

PORTFOLIO is the term used to describe the 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.

PREMIUM is the amount by which the price paid for a security exceeds the security's par value.

PRIMARY DEALER is 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.

PRIME RATE is a preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

PRINCIPAL is the face value or par value of a debt instrument, or the amount of capital invested in a given security.

PURCHASE DATE is the date in which a security is purchased for settlement on that or a later date.

RATE OF RETURN is 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 AGREEMENTS are short term investment transactions. Banks buy temporarily idle funds from a customer by selling him U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date at an agreed upon interest rate. Repurchase agreements are typically for one to ten days in maturity. The customer receives interest from the bank. The interest rate reflects both the prevailing demand for Federal Funds and the maturity of the Repo. Repurchase Agreements must be collateralized.

RISK is the degree of uncertainty of return on an asset.

SAFEKEEPING is the holding of assets (e.g. securities) by a financial institution.

SAFEKEEPING SERVICE is the service that offers storage and protection of assets provided by an institution serving as an agent.

SALLIE MAE is the trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

SECURITIES AND EXCHANGE COMMISSION (SEC) is the federal District responsible for supervising and regulating the securities industry.

SETTLEMENT DATE is the date on which a trade is cleared by delivery of securities against funds.

STANDARD AND POOR'S CORPORATION (S&P) is one of the three best-known rating agencies in the United States. The others are Moody's Investment Service, Inc. and Fitch IBCA, Inc. (Fitch).

TAX AND REVENUE ANTICIPATION NOTES (TRANS) are notes issued in anticipation of receiving tax proceeds or other revenues at a future date.

TOTAL RETURN is the sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return

TREASURY BONDS (ALSO KNOWN AS T-BONDS) are U.S. Treasury long-term obligations, direct obligations of the U.S. Government, which generally mature in 10 years or more.

TRUSTEE OR TRUST COMPANY OR TRUST DEPARTMENT OF A BANK is 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.

U.S. GOVERNMENT AGENCIES is the term used to describe the instruments issued by various U.S. Government Agencies, most of which are secured only by the credit worthiness of the particular Agency.

U.S. TREASURY ISSUES are direct obligations of the United States Government. They are highly liquid and are considered the safest investment security. U.S. Treasury issues include:

Treasury Bills are non-interest-bearing discount securities 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 Notes have original maturities of over one year up to ten years.

Treasury Bonds have original maturities of up to 30 years.

U.S. TREASURY OBLIGATIONS are 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 that mature between 1 and 10 years. **Bonds** are long-term obligations that generally mature in 10 years or more.

WEIGHTED AVERAGE MATURITY (WAM) is the average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

YIELD is 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 is 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 percentage.

Approved by the City Council of the City of Commerce on February 21, 2017.