BEFORE THE TREASURY OVERSIGHT COMMITTEE
COUNTY OF TULARE, STATE OF CALIFORNIA

IN THE MATTER OF APPROVAL OF THE TULARE COUNTY INVESTMENT POLICY OF 2021/2022	)) **Resolution No. 2021-01**))

UPON MOTION OF MEMBER COOK, SECONDED BY MEMBER LIMAS THE FOLLOWING WAS DISCUSSED AND APPROVED BY THE TREASURY OVERSIGHT COMMITTEE, AT AN OFFICIAL MEETING HELD APRIL 22, 2021, BY THE FOLLOWING VOTE:

AYES:STEVE TSUBOI, PAUL GUERRERO, JASON MONTGOMERY
NOES:NONE
ABSTAIN:

ABSENT: JASON BRITT, STAN BENNETT, SARAH SMIGIERA

ATTEST: STEVE TSUBOI, CHAIRMAN
TREASURY OVERSIGHT COMMITTEE

BY: Steve Tsuboi
STEVE TSUBOI

* *

The Treasury Oversight Committee recommends approval of the Tulare County Investment Policy 2021/2022.

TULARE COUNTY

Annual Investment Policy of the Pooled Investment Fund

FISCAL YEAR 2021/2022

Deleted: 2020

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Cass Cook, CFIP
Auditor-Controller / Treasurer-Tax Collector

http://www.tularecounty.ca.gov/treasurertaxcollector/index.cfm/treasurer/documents/

PREFACE

This policy has been researched, prepared, and written under the direction of the Auditor-Controller/Treasurer-Tax Collector and the Chief Deputy Treasurer-Tax Collector of the County of Tulare. Each issue addressed in this policy is considered to be of timely and significant importance to the administration of the investment portfolio. While some portions of this policy are a restatement of State law, it is viewed that these restatements are integral to the purpose and flow of this policy.

The following statements are intended to ensure the achievement of the purpose, goals, and objectives of the investment strategy in an orderly, accurate manner. However, there is no guarantee that problems, errors or losses will not arise in the course of administering the investment of idle funds.

Among the obstacles and deterrents that may affect the achievement of the goals and objectives of the portfolio include but are not limited to the following: unforeseen national or international events or crises, deviation of actual cash flow from forecasted cash flow, unexpected demands on cash flow, policies made with regard to investment in local depositories, errors in data or advice used to make decisions, as well as any other unforeseen aberrations or event that may have an effect on local, national or international financial markets, economies or politics, which in turn has a decided effect upon the portfolio.

Keeping in mind the obstacles and deterrents in pursuing portfolio goals and objectives, this policy is designed to achieve a reasonable rate of return over an economic cycle, consistent with limited risk and prudent investment practices.

Approval Schedule

- County Treasury Oversight Committee
  Approved – April 22, 2021
- Tulare County Board of Supervisors
  Approved – DATE

Deleted: May 14, 2020

Deleted: December 15, 2020

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1.0 POLICY

The purpose of the Investment Policy is to facilitate the accomplishment of the County Treasurer's goals and objectives with regard to the investment of idle funds, to provide a framework to carry out the business of administering and investing the idle funds of the County Treasury, and to improve communications between everyone involved and interested in the process of investing and administering the idle funds of the County Treasury.

1.1 MAINTENANCE OF PUBLIC TRUST

The Treasurer has been entrusted with the safekeeping of public monies received from public sources. The County Treasurer shall exercise a high degree of professionalism while managing the investment portfolio, to ensure and sustain public confidence, remembering that both the investment instruments and the methods of transacting investment business are subject to public review and scrutiny.

1.2 PUBLIC INQUIRY

The County Treasurer's portfolio and related transactions are a matter of public record. All districts whose funds are deposited with the Treasurer or any member of the public may obtain a copy of the Comprehensive Annual Financial Report (Annual Report), the Treasury Annual Investment Policy, and monthly and quarterly reports including a complete listing of our holdings by visiting the County's web site under the Treasurer department.

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2.0 SCOPE

The following investment policy governs the deposit, safekeeping, and investment of all funds under the control of the County Treasurer, as well as all related transactions and investment activities. It does not apply to bond funds or other assets belonging to the County of Tulare, or other affiliated public agency assets that reside outside of the County Treasury Pool. The County's Comprehensive Annual Financial Report (Annual Report) identifies the fund types incorporated in the County's Investment Pool to include:

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1. General Fund
2. Special Revenue Funds
3. Enterprise Funds
4. Internal Service Funds
5. Fiduciary Funds
6. Any new funds created by the Board of Supervisors

3.0 PRUDENCE

The administration of idle funds of the Tulare County Treasurer, as a fiduciary trustee, shall be performed in accordance with the prudent investor standard as stated in California Government Code §27000.3 and §53600.3:

> "When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the county treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, 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 county and other depositors."

Prudence shall be applied in the context of portfolio management. Investment officers and their advisors acting in accordance with written procedures and exercising due diligence, shall be relieved of personal responsibility for individual security's credit risk or market price changes; provided that deviations from expectation are reported to the Treasurer in a timely fashion and appropriate action is taken to control adverse developments.

4.0 LEGAL COMPLIANCE

All investments shall be made in accordance with the County Treasurer's Investment Policy, California Government Code §27000 et. seq., and §53600 et. seq., and any forthcoming amendments or additions to the California Government Code in relation to the investment of local agency idle funds.

5.0 PRIMARY GOALS

The Treasurer's primary goals for the investment of idle funds (the portfolio) are, in order of priority as per California Government Code §27000.5 and §53600.5:

1. **Safety** – Safety of capital shall mean the safeguarding of capital through the selection of investments and investing procedures to best protect against loss arising from default, fraud, or error. This objective will be obtained through diversification and investment in securities of high quality to minimize credit risk and loss of principal.
2. **Liquidity** – The investment portfolio shall remain sufficiently liquid to enable the Treasury Pool to meet the operating requirements of its participants which might be reasonably anticipated and shall always have the ability to convert sufficient securities in the portfolio to cash to meet contingency needs.
3. **Yield** – The investment portfolio shall be designed with the objective of attaining the highest rate of return, taking into consideration income preservation, current market conditions, the present phase of the market cycle, both present and future cash flow needs, and the other primary goals of Safety and Liquidity.

6.0 DELEGATION OF AUTHORITY

The authority to invest /reinvest is delegated for a one year period by the Board of Supervisors to the County Treasurer until revoked or the authority expires inaccordance with California Government Code §27000.1, §53607, §53601 §53635 and, the Tulare County Ordinance 1-03-2061, the County Treasurer shall be responsible for the investment of the County's funds (including the purchase, sale, or exchange of securities), the monitoring and reviewing of all investments for consistency under this investment policy.

The Treasurer shall have the responsibility to execute investment transactions on a day to day basis and shall establish a system of internal controls to regulate the investment activities. When circumstances warrant, the responsibility to execute investment transactions may be delegated to the Chief Deputy Treasurer/Tax Collector, Chief Accountant-Treasury and/or the Investment Officer. The County may engage the services of one or more external investment managers to assist in the management of the Investment portfolio in a manner consistent with the County's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Each external manager assigned any portion of the portfolio must individually comply with the investment parameters established by this policy. Such managers must be registered under the Investment Advisors Act of 1940.

NO PERSON MAY ENGAGE IN AN INVESTMENT TRANSACTION EXCEPT AS PROVIDED UNDER THE LIMITS OF THIS POLICY AND THE PROCEDURES ESTABLISHED BY THE AUDITOR-CONTROLLER/TREASURER-TAX COLLECTOR.

7.0 CONFLICT OF INTEREST

The Auditor-Controller/Treasurer-Tax Collector, the Treasury Oversight Committee, and Treasury staff involved with the investment process shall not engage in any profession, trade, business or occupation which is incompatible or involves a conflict of interest with his/her duties; or which may reflect unfavorably on the County, the appointing authority, or on fellow employees.

California Government Code §27133(d) requires limits to be set on the receipt of honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons with whom the County Treasury conducts business by any member of the County Treasury Oversight Committee and shall require the completion of an annual Statement of Economic Interests by each member to be filed with the member's respective agency. This policy establishes a limit on the amount of honoraria, gifts and gratuities that a committee member may receive from a single source in a calendar year that is consistent with the Fair Political Practices Commission. This limit may be in addition to the limits set by a committee member's own agency or by state law.

As part of the Treasury Oversight Committee audit, annual compliance confirmation are sent to each committee member. Each member is requested to confirm they are or are not in compliance with Government Code §27132.1 and §27132.2 which states;

Government Code §27132.1 a member may not be employed by an entity that has contributed to a re-election campaign of the local treasurer or a member of the legislative body of the local agency in the previous three years; Government Code §27132.2 a member may not directly or indirectly raise money for the county treasurer or a member of the board of supervisors while a member of the committee.

8.0 BROKER/DEALER AND DEPOSITORY INSTITUTION RELATIONSHIPS

8.1 APPROVED LIST OF BROKER/DEALER INSTITUTIONS

The County Treasurer shall approve and maintain a list of broker/dealers and direct issuers authorized to provide investment services to the County pursuant to California Government Code §53601.5. All investments must be made with institutions that have been approved by the County Treasurer prior to investing. The County's external investment advisors may use their own list of approved broker/dealers and financial institutions for investment purposes. The advisor shall submit the list of approved broker/dealers to the County on an annual basis for review. The criteria for approval is described in a separate *Investment Guidelines and Procedures Manual* maintained by the Treasurer's Office.

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8.2 APPROVED LIST OF DEPOSITORY INSTITUTIONS

The County Treasurer shall approve and maintain a list of depository institutions from which the County is authorized to place deposits described in section (L) of the AUTHORIZED INVESTMENT INSTRUMENTS section of this policy (including but not limited to Certificates of Deposit and Time Deposits). This list will be reviewed on an annual basis by the County Treasurer. An institution must meet the following criteria to be considered by the County Treasurer for deposits described in section (L) of the AUTHORIZED INVESTMENT INSTRUMENTS section of this policy:

1) The institution must be located in California.
2) The institution must have current financial information, a signed contract and waiver on file with the agency.
3) The institution must maintain a net worth to asset ratio of at least 3% and have a positive earnings record.
4) The institution must be at least 3 years old.
5) For collateralized investments, the institution must have at least $100 million in assets and collateralize their TCD's in accordance with §53651 and §53652 of the California Government Code.
6) The institution shall have received an overall rating of not less than "satisfactory" in its most recent Community Reinvestment Act evaluation.

9.0 TERMS FOR FUNDS INVESTED WITH THE POOL

California Government Code §27133(h) and §27136 requires the County Treasurer to define the limits and conditions under which local agencies having their money in the Investment Pool may deposit and withdraw their funds. The Government Codes confer upon the Treasurer the final authority as to how funds for which the Treasurer is held responsible for overseeing, are to be invested. The Treasurer must take into account the current financial condition of the sum total of the Pools' agencies, the conditions of the market place, the cash flow projections as well as the potential for changes in the Pool's cash needs. The Treasurer must protect the earnings of each individual local agency in the Pool, and also see that no decision will reward a particular agency or group of agencies within the Pool at the expense of another or others within the Pool. If the Treasurer determines that a request for a withdrawal of funds for a specific or outside investment is not, in the Treasurer's opinion, in the best interest of a particular agency, or is overly detrimental to the Pool as a whole, the Treasurer must legally deny the request, or find a means of neutralizing the harm to all those affected.

9.1 FUNDS OF AGENCIES REQUIRED TO INVEST WITHIN THE POOL

Funds will be accepted at all times, in the manner prescribed, from those agencies where the County Treasurer is also the Treasurer for the local agency, or from any agencies that by statute must place their money in the County Investment Pool. Funds will earn interest based on the average daily balance apportioned on a quarterly basis.

The Treasury Pool's cash management plan provides for adequate liquidity to cover day-to-day operations of pool participants. The County Treasurer will honor all requests to withdraw funds for normal operations that are approved by the County Auditor at a one-dollar net asset value. However, withdrawals during periods of market stress that would adversely affect depositors in the Pool will be at the discretion of the Treasurer.

Under normal conditions, in order to accommodate large withdrawals that exceed those normally associated with operations, the following written notification requirements must be followed to allow for adjustments to the liquidity position of the pool.

- ♦ Withdrawals of up to $5,000,000……………………….48 hours
- ♦ Withdrawals of up to $10,000,000……………………….72 hours
- ♦ Withdrawals of up to $10,000,001 and above ………..5 days

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Should a legislative body of a local agency determine that certain funds will not be required by the local agency for a period of at least one year, the local agency may petition the County Treasurer to invest that portion of the local agency's excess funds in a specific investment under the control of the County Treasurer. Such a petition should specifically state the nature of the funds the legislative body wishes to invest, and the reasons why the legislative body believes a specific investment is a preferable and viable alternative to the general Pools participation. Should the Treasurer determine that the request for a specific investment is valid and not overly counter-productive as to the Pool as a whole, the Treasurer will consult with the local agency's legislative body, or its appointed representative, to suggest and determine exactly what investment(s) should be purchased to fulfill the needs of the local agency. The Treasurer will then purchase the specific investment(s) upon receipt of a written resolution issued by the legislative body of the local agency, requesting the specific investment. The resolution must acknowledge that the local agency's legislative body takes full responsibility for the decision to purchase the specific investment(s), and that should conditions change requiring a sale prior to maturity of the specific investment(s), any loss that might be suffered as a result, will be solely that of the local agency, and that this loss shall not be shared by the Pool as a whole, nor by the County.

Under language added to the California Government Code §27133(h) and §27136 in 1995, it is not permissible for local agency legislative bodies, required to have their funds within the Pool, to withdraw funds from the Pool in order to invest outside the County Pool in any manner, at any time without specific permission of the Treasurer. Any such investments shall be either terminated and all funds returned to the Pool, or the securities so purchased must be transferred to the custody of the County Treasurer immediately. Upon receipt of any such securities by the Treasurer, the Treasurer shall at the Treasurer's option, place the investment in the Pool, terminate the investment at the current market value and credit the local agency with the proceeds, or place the security in the name of the local agency as a specific investment.

9.2 MONEY VOLUNTARILY INVESTED WITH THE POOL

Pursuant to Government Code §53684, the County Treasurer shall limit the amounts and set conditions under which money from local agencies, not required to have their funds in the investment Pool, may deposit and withdraw voluntarily invested funds. Funds from local agencies within the County, voluntarily wishing to participate in the Pool, will not be accepted under normal conditions unless the Treasurer is assured that these funds are in lieu of longer-term investments. Such deposits are subject to withdrawal restrictions for a set minimal term as to be agreed to prior to the funds being accepted into the Pool, and may not be withdrawn at any time without a minimum of 30 day notice of "intent to withdraw".

Under normal conditions, voluntary money withdrawn from the Pool will be disbursed on a dollar for dollar basis, plus appropriate interest, but under adverse market conditions, when the Treasurer deems the withdrawal of voluntary funds would cause undue losses or significantly lower earnings for those local agencies remaining within the Pool, the Treasurer may require one or more of the following remedies:

1. Restrict the percentage of funds that may be withdrawn in any given month;
2. Restrict the rate at which the funds may be withdrawn;
3. Require the local agency withdrawing their funds to accept their funds based on the current market value of the overall Pool.

These terms will be agreed to and contracts signed prior to any voluntary money being accepted into the County Investment Pool. Such terms may exceed minimum requirements set forth in the Government Codes.

Specific investments are not normally permitted with voluntary funds, though on a cost recovery basis and under circumstances that dictate such activity, exceptions may be permitted.

9.3 INCOME APPORTIONMENT

Pursuant to Government Code §27013 and §53684.b, the County Treasurer calculates and records all interest earned, received, and accrued for the Investment Pool on a daily basis. The apportionment of investment earnings to the various participants in the Investment Pool is done at the end of each calendar quarter. The apportioned amount is computed as follows:

$$\text{Participating Share of Pool Income} = \frac{\text{(Fund's Avg. Daily Equity x Pool Total Income)}}{\text{Total Pool Average Daily Equity}}$$

10.0 AUTHORIZED INVESTMENT INSTRUMENTS

The following defines in detail the parameters of each approved investment type. Any instrument not expressly permitted is prohibited. Specific limitations are provided on the maximum allowable percentage per investment category and further limitations by issuer within each investment category. With the exception of insured and/or collateralized bank deposits, overnight repurchase agreements, U.S. Government securities, including its agencies and instrumentalities, and authorized pools, no more than 10% of the County's aggregate investment portfolio may be invested in securities of a single issuer, regardless of sector. Where there is a percentage limitation for a particular category of investment, that percentage is only applicable at the time of purchase. If at the end of any quarter, any percentage in any restricted security is higher than the maximum allowed by category at time of purchase, the Treasurer shall take action within 90 days, to adjust the portfolio holdings so that the percentages are brought within the percentage limits.

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A. Bonds issued by the County of Tulare, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the County of Tulare or by a department, board, agency, or authority of the County of Tulare.

B. United States Treasury bills, notes, bonds or certificates of indebtedness or those for which faith and credit of the United States are pledged for principal and interest.

C. Registered treasury notes or bonds of any of the 49 United States in addition to the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to the State of California. No more than 30% of the total portfolio may be invested in a combination of securities authorized by this paragraph and paragraph D, below.

D. Bonds, notes or warrants of the State of California and any local agency within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency. No more than 30% of the total portfolio may be invested in a combination of securities authorized by this paragraph and paragraph C, above.

E. Federal agency or United States government - sponsored enterprise obligation, 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, per California Government Code §53601. No more than 75% of the total portfolio may be invested in Agency Securities.

F. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as Bankers Acceptances, the short-term paper of which is rated in the highest category by a nationally recognized rating service. Purchases of Bankers Acceptances may not exceed 180 days maturity or 40 percent of the total portfolio which may be invested pursuant to this section.

G. Commercial Paper. Commercial paper of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

   (1) The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation. (B) Has total assets in excess of five hundred million dollars ($500,000,000). (C) Has debt other than commercial paper, if any, that is rated in a rating category of “A” or its equivalent or higher by a nationally recognized statistical-rating organization.

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

   Purchases of eligible commercial paper shall not exceed 270 days maturity. Purchases of commercial paper may not exceed 40 percent of the County’s total portfolio. (California Government Code §53635)

Deleted: nor represent more than 5 percent of the outstanding paper of an issuing corporation

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H. Negotiable Certificates of Deposit (California Government Code §53601(i)) issued by a nationally or state-chartered bank or a savings association or federal association or a state or federal credit union or a federally-licensed or state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated in a rating category of “A” or its equivalent or better by a nationally recognizing rating service. Purchases of negotiable certificates of deposit may not exceed 30 percent of the total portfolio which may be invested pursuant to this section. For the purpose of this section, negotiable certificates of deposit do not come within Article 2 of Chapter 4 of Part 1 of Division 2 of Title 5 of the Government code, except that the amount so invested shall be subject to the limitations of §53638.

I. Authorized by California Government Code §53601 and/or §53635.

(1) Investment in Repurchase Agreements or Reverse Repurchase Agreements of any securities authorized by California Government Code §53601 & §53635.

(2) Investment in Repurchase Agreements may be made on any investment authorized in California Government Code §53601 and §53635 when the term of the agreement does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily fluctuation, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day. No more than 50% of the total portfolio may be invested in overnight repurchase agreements.

(3) Reverse Repurchase Agreements may be utilized only when the following conditions are met: The security to be sold on Reverse Repurchase Agreement has been owned and fully paid for by the County of Tulare for a minimum of 30 days prior to sale, and the total of all Reverse Repurchase Agreements on investments owned by the local agency does not exceed 20 percent of the base portfolio, and the agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of the security using a Reverse Repurchase Agreement and the final maturity date of the same security.

(4) A Reverse Repurchase Agreement may not be entered into as a means of financing or paying for the security sold on a Reverse Repurchase Agreement, but may only be entered into in order to supplement the yield on securities owned and previously paid for or to provide funds for the immediate payment of an obligation of Tulare County.

(5) Investments in Reverse Repurchase Agreements or similar investments in which the local agency sells securities prior to purchase, may only be made upon prior approval of the Board of Supervisors of the County of Tulare and are limited to no more than 20% of the total portfolio.

(6) (a) "Repurchase Agreement" means a purchase of securities by the agency pursuant to an agreement by which the counter party seller will repurchase the securities on or before a specified date and for a specified amount and the counter party will deliver the underlying securities to the agency's pool by book entry, physical delivery, or by third party custodial agreement. The transfer of underlying securities to the counter party bank's customer book-entry account may be used for book-entry delivery.

(b) "Securities", for the purpose of repurchase, means securities of the same issuer, description, issue date, and maturity.

(c) "Reverse Repurchase Agreement" means a sale of securities by the County Treasury pursuant to an agreement by which the agency will repurchase the securities on or before a specified date, and includes other comparable agreements.

(d) The base value of the County Treasury Pools portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pools by all pool participants, excluding any amounts obtained through selling securities by way of Reverse Repurchase Agreements or other similar borrowing methods.

(e) The spread is the difference between the cost of funds obtained using the Reverse Repurchase agreement and the earnings obtained on the reinvestment of the funds.

J. Medium-Term Notes with a maximum of five years' maturity 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. Notes eligible for investment shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Purchases of Medium-Term Notes may not exceed 30 percent of the agency's total portfolio which may be invested.

K. 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. To be eligible for investment these companies shall either:

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

(2) Have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market funds with assets under management in excess of five hundred million dollars ($500,000,000). The purchase price of shares of beneficial interest purchased, shall not include any commission that these companies may charge and shall not exceed 15 percent of the agency's total portfolio which may be invested pursuant to §53635 of the California Government Code.

L. FDIC insured or collateralized savings accounts, market rate accounts, certificates of deposits and other bank deposits in a state or national bank, savings association or federal association, a state or a federal credit union located in California. Any financial institution accepting County funds for deposit must comply with the requirements of Government Code §53630 et seq., including collateralization of deposits. The County may waive the collateralization requirements for any portion of the deposit that is covered by Federal Deposit Insurance. As provided by Government Code §53649, the County shall have a signed contract with each financial institution that has County funds on deposit.

M. Deposits at a commercial bank, savings bank, savings and loan association, or credit union placed through a deposit placement service that comply with the requirements under Government Code §53601.8 and §53635.8. The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by Federal Deposit Insurance.

N. Local Agency Investment Fund (LAIF). The maximum balance that can be held in the fund is the maximum amount permitted by State Treasury policy.

O. Managed Investment Pool's pursuant to California Government Code §53601(p) for which shares of beneficial interest issued by a joint powers authority organized pursuant to California Government Code §6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.

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

P. A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall:

(1) Have a maximum remaining maturity of five years or less.

(2) Be rated in a rating category of "AA" or its equivalent or better by a nationally recognized statistical-rating organization.

(3) Purchase of securities authorized by this subdivision may not exceed an accumulative total of 20 percent of the total portfolio.

(4) Purchase of securities authorized by this section is limited to the portion of the portfolio managed by an Investment Advisor on behalf of the County Treasurer.

Q. 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, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by a nationally recognizing rating service and shall not exceed 30 percent of the total portfolio that may be invested pursuant to this section.

Commented [PFM5]: Edited to match Code. Code language changed when section 53601 added paragraph r, effective 1/1/20.

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Deleted: Non-Federal Agency issuers under this subsection are further limited to 10% of the portfolio.

11.0 INELIGIBLE SECURITIES

1. Securities Lending
2. Inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages.
3. A local agency shall not invest any funds in any security that could result in zero interest accrual if held to maturity.
4. Financial futures and options.

12.0 REVIEW AND ANALYSIS OF PROSPECTIVE INVESTMENTS

The securities held by the Treasurer must be in compliance with Section 10 Authorized Investment Instruments at the time of purchase. Because some securities may not comply with Section 10 subsequent to the date of purchase, the Treasurer shall at least quarterly review the portfolio to identify those securities that do not comply. The Treasurer shall report to the Board of Supervisors and to its oversight committee, major and critical incidences of noncompliance identified through the review of the portfolio.

Due to the complexity of the various investment instruments available and uncertainty of market conditions the Treasurer may seek professional advice in making investment decisions in order to optimize investment selections, subject to §1-03-2062 of the Tulare County Ordinance Code.

13.0 COMPETITIVE BIDDING

When executing a transaction, the County and its external investment advisors shall seek bids or offerings from at least three broker/dealers on the approved list.

14.0 SAFEKEEPING

As required by California Government Code §53601, §53608 and §53635 all investment instruments in a negotiable, bearer, registered, or non-registered format, shall be delivered to the County of Tulare's custodial bank by using book entry or physical delivery. The "delivery vs. payment" purchase procedure shall be used. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts. No securities will be held by the broker/dealer from whom they were purchased.

15.0 POOL INVESTMENT PARAMETERS

Allowable Instruments	County Maximum % of Portfolio	Code Maximum % of Portfolio	County Maximum Maturity	Code Maximum Maturity	County % per Issuer[1]
U.S. Treasury Obligations (§53601(b))	100	100	5 Years	5 Years	100
U.S. Agency Obligations or U.S. Government Sponsored Enterprises (§53601(f))	75	100	5 Years	5 Years	100
Supranational Obligations (§53601(q))	30	30	5 Years	5 Years	10
Medium Term Notes (Corporate) (§53601(k))	30	30	5 Years	5 Years	10
Mortgage and Asset Backed Securities ((§53601(o))	20	20	5 Years	5 Years	10
Bankers' Acceptances (§53601(g))	40	40	180 Days	180 Days	10
Negotiable Certificates of Deposit (§53601(i))	30	30	5 Years	5 Years	10
Repurchase Agreement (§53601(j))	50	None	30 Days	1 Year	N/A
Reverse Repurchase Agreements (§53601(j))	20	20	92 Days	92 Days	10
Bank Time Deposits (§53630 et seq.)	30	None	3 Years	None	25
Bank Deposits – through deposit placement service (§53601.8)	30	50[2]	3 Years	None	25
Money Market Accounts (§53630 et seq.)	50	None	N/A	None	25
Commercial Paper (§53601(h) and (§53635(a))	40	40	270 Days	270 days	10
Money Market Funds (§53601(l))	15	20	N/A	N/A	10
Obligations issued by a State or local agencies within California or any of the other 49 United States (§53601(d)(e))	30	100	5 Years	5 Years	10
Tulare County (§53601(a))	15	100	5 Years	5 Years	10
L.A.I.F. (§16429.1)	Maximu m Allowed	Per State Treasury Policy	N/A	N/A	N/A
Managed Investment Pool pursuant to GC §53601(p)	50	None	N/A	N/A	N/A

[1] With the exception of insured and/or collateralized bank deposits, overnight repurchase agreements, U.S. Government securities, including its agencies and instrumentalities, and authorized pools, no more than 10% of the County's aggregate investment portfolio may be invested in securities of a single issuer. Commercial paper is further limited to 5% of the outstanding paper of the issuing corporation.

[2] Bank Deposits – through deposit placement service": Code limit of 50% is in effect until January 1, 2026, at which time it will revert back to the previous limit of 30%, in accordance with Assembly Bill 945.

16.0 MAXIMUM MATURITIES

No investment shall be made in any security with a maturity greater than five years, unless it is approved by the Board of Supervisors no less than three months prior to investment. Some investments are restricted to terms less than five years. These maturity limitations are described in this policy. The term "maturity" in this Policy is defined as an instrument's stated legal final redemption date. The dollar-weighted average maturity of the portfolio shall not exceed 3.5 years.

17.0 INTERNAL CONTROLS

Pursuant California Government Code §27130 thru §27137, and the Tulare County Ordinance 1-05-1070 the Board of Supervisors, in consultation with the County Treasurer has created a County Treasury Oversight Committee to promote the public interest by involving depositors in the management of their funds and by enhancing the security and investment return of their funds through the establishment of criteria for the withdrawal of funds. The County of Tulare Treasury Oversight Committee shall annually review and monitor the Investment Policy and cause an annual audit to provide internal controls by assuring the Treasurer's compliance with the Investment Policy. Nothing in this policy shall be construed to allow the County Treasury Oversight Committee to direct individual investment decisions, select individual investment advisors, brokers or dealers, or impinge on the day-to-day operations of the County Treasury.

In compliance with §27132 of the California Government Code, the County Treasurer Oversight Committee shall consist of the following:

a) The County Auditor-Controller/Treasurer-Tax Collector
b) A representative appointed by the Board of Supervisors or his/her designee
c) The Superintendent of Schools or his designee
d) A School District designee
e) A Special District designee
f) Two members of the public with expertise, or academic background in public finance.

18.0 PERFORMANCE MEASUREMENT

The investment portfolio will be managed in accordance with the parameters specified within this policy. The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. The investment performance objective for the portion of the portfolio managed by the Investment Managers/Advisors shall be to earn a total rate of return which is approximately equal to or greater than the return on a portfolio/index of securities with commensurate risk. The rate of return on the portion of the portfolio managed in-house will be compared to the Local Agency Investment Fund (LAIF) and the average two- year Treasury note. The investment performance measurement benchmarks for the Investment Managers/Advisors shall be stated on the quarterly report based on current contractual agreements. Additional indexes may be used and presented for comparison purposes only.

19.0 REPORTING

The Treasurer provides a quarterly Investment Report to the Board of Supervisors, County Administrative Officer, the County Auditor, and the Oversight Committee, within thirty (30) days following the end of the quarter covered by the report. The quarterly investment report contains, but is not limited to, the following investment information:

A. The type of investment, name of issuer, date of maturity, par and dollar amount invested in all securities, investments, and monies;
B. A description of any funds, investments that are under the management of contracted parties;
C. The market value as of the date of the report, and the source of this valuation for any security within the Treasury or under management by contract;
D. The weighted average maturity of investments within the Treasury;
E. Purchase dates, book values, and current credit rating of issuers;
F. Yield to maturity;
G. Overall portfolio yield based on cost;
H. Statement that the portfolio is in compliance with the Investment Policy or the manner in which the portfolio is not in compliance;
I. A statement denoting the County's ability to meet its expenditure requirements for the next six months, or an explanation as to why sufficient money shall not be available.

In addition to the Quarterly reports, the Treasury also provides a monthly summary Investment Report to the Board of Supervisors, County Administrative Officer, the County Auditor, and the Oversight Committee. The monthly investment reports contains, but is not limited to, the following investment information:

A. The type of investment, name of issuer, date of maturity, par and dollar amount invested in all securities, investments, and monies;
B. A description of any funds, investments that are under the management of contracted parties;
C. The market value as of the date of the report, and the source of this valuation for any security within the Treasury or under management by contract;
D. The weighted average maturity of investments within the Treasury;
E. Purchase dates, book values, and market values;
F. Yield to maturity;
G. Statement that the portfolio is in compliance with the Investment Policy or the manner in which the portfolio is not in compliance;

20.0 INVESTMENT POLICY ADOPTION

The Tulare County Treasurer's Investment Policy Statement for the Pooled Investment Fund is presented annually to the Treasury Oversight Committee for review and to the County Board of Supervisors for approval as recommended by California Government Code §53646 and §27133 and shall remain in effect until the succeeding policy is adopted.

21.0 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:

- **FARMER MAC.** The Federal Agricultural Mortgage Corporation is a federally GSE that is an institution of the Farm Credit System. Farmer Mac services as a secondary market in agricultural loans such as mortgages for agricultural real estate and rural housing.
- **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 “FreddieMac” issues discount notes, bonds and mortgage pass-through securities.
- **FNMA.** Like FHLB and FreddieMac, 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 “GinnieMae,” issues mortgage pass-through securities, which are 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.

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

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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 his 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.

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Certificate of Deposit Account Registry SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

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.

Comprehensive Annual Financial Report (Annual Report). The official annual report of the Tulare County Investment Pool. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed statistical sections.

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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 his 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.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC). A federal agency that insures bank deposits, currently up to $250,000 per entity.

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 HOME LOAN BANKS (FHLB). Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae). FNMA, like GNMA was chartered

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

FEDERAL OPEN MARKET COMMITTEE (FOMC). Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. 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., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR GINNIEMAE). Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. GinnieMae securities are backed by the FHA, VA or FHA mortgages. The term "pass-throughs" is often used to describe GinnieMaes.

GOVERNMENT-SPONSORED ENTERPRISE (GSE). Quasi-governmental entity established to enhance the flow of credit to specific sectors of the American economy. Created by acts of Congress, these agencies, although privately-held, provide public financial services. GSEs help to facilitate borrowing for a variety of individuals, including students, farmers, and homeowners. Fannie Mae, Freddie Mac, Federal Home Loan

Deleted: 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.

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Bank System, and the Federal Farm Credit System are all considered GSEs.

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.

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.

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

MATURITY. The final date upon which the principal of a security becomes due and payable.

MEDIUM TERM NOTES. 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.

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 and are payable upon order to the bearer or initial depositor (investor).

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Commented [PFM10]: Recommend editing this definition so it has the same definition and meaning as in Code 53601(k) Medium-term notes.

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Deleted: Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or

Deleted: an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

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OFFER. The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS. Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

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PORTFOLIO. Collection of securities held by an investor.

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

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."

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. This may be the amortized yield to maturity on a bond the current income return.

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.

REPURCHASE AGREEMENT (REPO). 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.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO). A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

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

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

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

SEC RULE 15(C)3-1: See Uniform Net Capital Rule.

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.

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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. Examples of a supranational organization include International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

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.

UNIFORM NET CAPITAL RULE. Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

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

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.

22.0 CMTA Certification

California Municipal
Treasurers Association

Investment Policy Certification

Issued on 10/20/2017

County of Tulare Treasury Department

The California Municipal Treasurers Association certifies that the investment policy of the County of Tulare Treasury Department complies with the current State statutes governing the investment practices of local government entities located within the State of California.

Over 50 Years of Excellence

President

10/26/17
Date

TULARE COUNTY

Annual Investment Policy of the Pooled Investment Fund

FISCAL YEAR 2021/2022

Cass Cook, CFIP
Auditor-Controller / Treasurer-Tax Collector

http://www.tularecounty.ca.gov/treasurertaxcollector/index.cfm/treasurer/documents/

PREFACE

This policy has been researched, prepared, and written under the direction of the Auditor-Controller/Treasurer-Tax Collector and the Chief Deputy Treasurer-Tax Collector of the County of Tulare. Each issue addressed in this policy is considered to be of timely and significant importance to the administration of the investment portfolio. While some portions of this policy are a restatement of State law, it is viewed that these restatements are integral to the purpose and flow of this policy.

The following statements are intended to ensure the achievement of the purpose, goals, and objectives of the investment strategy in an orderly, accurate manner. However, there is no guarantee that problems, errors or losses will not arise in the course of administering the investment of idle funds.

Among the obstacles and deterrents that may affect the achievement of the goals and objectives of the portfolio include but are not limited to the following: unforeseen national or international events or crises, deviation of actual cash flow from forecasted cash flow, unexpected demands on cash flow, policies made with regard to investment in local depositories, errors in data or advice used to make decisions, as well as any other unforeseen aberrations or event that may have an effect on local, national or international financial markets, economies or politics, which in turn has a decided effect upon the portfolio.

Keeping in mind the obstacles and deterrents in pursuing portfolio goals and objectives, this policy is designed to achieve a reasonable rate of return over an economic cycle, consistent with limited risk and prudent investment practices.

Approval Schedule

- County Treasury Oversight Committee
  Approved – April 22, 2021
- Tulare County Board of Supervisors
  Approved –

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1.0 POLICY

The purpose of the Investment Policy is to facilitate the accomplishment of the County Treasurer's goals and objectives with regard to the investment of idle funds, to provide a framework to carry out the business of administering and investing the idle funds of the County Treasury, and to improve communications between everyone involved and interested in the process of investing and administering the idle funds of the County Treasury.

1.1 MAINTENANCE OF PUBLIC TRUST

The Treasurer has been entrusted with the safekeeping of public monies received from public sources. The County Treasurer shall exercise a high degree of professionalism while managing the investment portfolio, to ensure and sustain public confidence, remembering that both the investment instruments and the methods of transacting investment business are subject to public review and scrutiny.

1.2 PUBLIC INQUIRY

The County Treasurer's portfolio and related transactions are a matter of public record. All districts whose funds are deposited with the Treasurer or any member of the public may obtain a copy of the Comprehensive Annual Financial Report (Annual Report), the Treasury Annual Investment Policy, and monthly and quarterly reports including a complete listing of our holdings by visiting the County's web site under the Treasurer department.

2.0 SCOPE

The following investment policy governs the deposit, safekeeping, and investment of all funds under the control of the County Treasurer, as well as all related transactions and investment activities. It does not apply to bond funds or other assets belonging to the County of Tulare, or other affiliated public agency assets that reside outside of the County Treasury Pool. The County's Comprehensive Annual Financial Report (Annual Report) identifies the fund types incorporated in the County's Investment Pool to include:

1. General Fund
2. Special Revenue Funds
3. Enterprise Funds
4. Internal Service Funds
5. Fiduciary Funds
6. Any new funds created by the Board of Supervisors

3.0 PRUDENCE

The administration of idle funds of the Tulare County Treasurer, as a fiduciary trustee, shall be performed in accordance with the prudent investor standard as stated in California Government Code §27000.3 and §53600.3:

> “When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the county treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, 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 county and other depositors.”

Prudence shall be applied in the context of portfolio management. Investment officers and their advisors acting in accordance with written procedures and exercising due diligence, shall be relieved of personal responsibility for individual security’s credit risk or market price changes; provided that deviations from expectation are reported to the Treasurer in a timely fashion and appropriate action is taken to control adverse developments.

4.0 LEGAL COMPLIANCE

All investments shall be made in accordance with the County Treasurer’s Investment Policy, California Government Code §27000 et. seq., and §53600 et. seq., and any forthcoming amendments or additions to the California Government Code in relation to the investment of local agency idle funds.

5.0 PRIMARY GOALS

The Treasurer’s primary goals for the investment of idle funds (the portfolio) are, in order of priority as per California Government Code §27000.5 and §53600.5:

1. **Safety** – Safety of capital shall mean the safeguarding of capital through the selection of investments and investing procedures to best protect against loss arising from default, fraud, or error. This objective will be obtained through diversification and investment in securities of high quality to minimize credit risk and loss of principal.
2. **Liquidity** – The investment portfolio shall remain sufficiently liquid to enable the Treasury Pool to meet the operating requirements of its participants which might be reasonably anticipated and shall always have the ability to convert sufficient securities in the portfolio to cash to meet contingency needs.
3. **Yield** – The investment portfolio shall be designed with the objective of attaining the highest rate of return, taking into consideration income preservation, current market conditions, the present phase of the market cycle, both present and future cash flow needs, and the other primary goals of Safety and Liquidity.

6.0 DELEGATION OF AUTHORITY

The authority to invest /reinvest is delegated for a one year period by the Board of Supervisors to the County Treasurer until revoked or the authority expires in accordance with California Government Code §27000.1, §53607, §53601 §53635 and, the Tulare County Ordinance 1-03-2061, the County Treasurer shall be responsible for the investment of the County's funds (including the purchase, sale, or exchange of securities), the monitoring and reviewing of all investments for consistency under this investment policy.

The Treasurer shall have the responsibility to execute investment transactions on a day to day basis and shall establish a system of internal controls to regulate the investment activities. When circumstances warrant, the responsibility to execute investment transactions may be delegated to the Chief Deputy Treasurer/Tax Collector, Chief Accountant-Treasury and/or the Investment Officer. The County may engage the services of one or more external investment managers to assist in the management of the Investment portfolio in a manner consistent with the County's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Each external manager assigned any portion of the portfolio must individually comply with the investment parameters established by this policy. Such managers must be registered under the Investment Advisors Act of 1940.

NO PERSON MAY ENGAGE IN AN INVESTMENT TRANSACTION EXCEPT AS PROVIDED UNDER THE LIMITS OF THIS POLICY AND THE PROCEDURES ESTABLISHED BY THE AUDITOR-CONTROLLER/TREASURER-TAX COLLECTOR.

7.0 CONFLICT OF INTEREST

The Auditor-Controller/Treasurer-Tax Collector, the Treasury Oversight Committee, and Treasury staff involved with the investment process shall not engage in any profession, trade, business or occupation which is incompatible or involves a conflict of interest with his/her duties; or which may reflect unfavorably on the County, the appointing authority, or on fellow employees.

California Government Code §27133(d) requires limits to be set on the receipt of honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons with whom the County Treasury conducts business by any member of the County Treasury Oversight Committee and shall require the completion of an annual Statement of Economic Interests by each member to be filed with the member's respective agency. This policy establishes a limit on the amount of honoraria, gifts and gratuities that a committee member may receive from a single source in a calendar year that is consistent with the Fair Political Practices Commission. This limit may be in addition to the limits set by a committee member's own agency or by state law.

As part of the Treasury Oversight Committee audit, annual compliance confirmation are sent to each committee member. Each member is requested to confirm they are or are not in compliance with Government Code §27132.1 and §27132.2 which states;

Government Code §27132.1 a member may not be employed by an entity that has contributed to a re-election campaign of the local treasurer or a member of the legislative body of the local agency in the previous three years; Government Code §27132.2 a member may not directly or indirectly raise money for the county treasurer or a member of the board of supervisors while a member of the committee.

8.0 BROKER/DEALER AND DEPOSITORY INSTITUTION RELATIONSHIPS

8.1 APPROVED LIST OF BROKER/DEALER INSTITUTIONS

The County Treasurer shall approve and maintain a list of broker/dealers and direct issuers authorized to provide investment services to the County pursuant to California Government Code §53601.5. All investments must be made with institutions that have been approved by the County Treasurer prior to investing. The County's external investment advisors may use their own list of approved broker/dealers and financial institutions for investment purposes. The advisor shall submit the list of approved broker/dealers to the County on an annual basis for review. The criteria for approval is described in a separate *Investment Guidelines and Procedures Manual* maintained by the Treasurer's Office.

8.2 APPROVED LIST OF DEPOSITORY INSTITUTIONS

The County Treasurer shall approve and maintain a list of depository institutions from which the County is authorized to place deposits described in section (L) of the AUTHORIZED INVESTMENT INSTRUMENTS section of this policy (including but not limited to Certificates of Deposit and Time Deposits). This list will be reviewed on an annual basis by the County Treasurer. An institution must meet the following criteria to be considered by the County Treasurer for deposits described in section (L) of the AUTHORIZED INVESTMENT INSTRUMENTS section of this policy:

1) The institution must be located in California.
2) The institution must have current financial information, a signed contract and waiver on file with the agency.
3) The institution must maintain a net worth to asset ratio of at least 3% and have a positive earnings record.
4) The institution must be at least 3 years old.
5) For collateralized investments, the institution must have at least $100 million in assets and collateralize their TCD's in accordance with §53651 and §53652 of the California Government Code.
6) The institution shall have received an overall rating of not less than "satisfactory" in its most recent Community Reinvestment Act evaluation.

9.0 TERMS FOR FUNDS INVESTED WITH THE POOL

California Government Code §27133(h) and §27136 requires the County Treasurer to define the limits and conditions under which local agencies having their money in the Investment Pool may deposit and withdraw their funds. The Government Codes confer upon the Treasurer the final authority as to how funds for which the Treasurer is held responsible for overseeing, are to be invested. The Treasurer must take into account the current financial condition of the sum total of the Pools' agencies, the conditions of the market place, the cash flow projections as well as the potential for changes in the Pool's cash needs. The Treasurer must protect the earnings of each individual local agency in the Pool, and see that no decision will reward a particular agency or group of agencies within the Pool at the expense of another or others within the Pool. If the Treasurer determines that a request for a withdrawal of funds for a specific or outside investment is not, in the Treasurer's opinion, in the best interest of a particular agency, or is overly detrimental to the Pool as a whole, the Treasurer must legally deny the request, or find a means of neutralizing the harm to all those affected.

9.1 FUNDS OF AGENCIES REQUIRED TO INVEST WITHIN THE POOL

Funds will be accepted at all times, in the manner prescribed, from those agencies where the County Treasurer is also the Treasurer for the local agency, or from any agencies that by statute must place their money in the County Investment Pool. Funds will earn interest based on the average daily balance apportioned on a quarterly basis.

The Treasury Pool's cash management plan provides for adequate liquidity to cover day-to-day operations of pool participants. The County Treasurer will honor all requests to withdraw funds for normal operations that are approved by the County Auditor at a one-dollar net asset value. However, withdrawals during periods of market stress that would adversely affect depositors in the Pool will be at the discretion of the Treasurer.

Under normal conditions, in order to accommodate large withdrawals that exceed those normally associated with operations, the following written notification requirements must be followed to allow for adjustments to the liquidity position of the pool.

- Withdrawals of up to $ 5,000,000… .... 48 hours
- Withdrawals of up to $10,000,000… .... 72 hours
- Withdrawals of up to $10,000,001 and above .... 5 days

Should a legislative body of a local agency determine that certain funds will not be required by the local agency for a period of at least one year, the local agency may petition the County Treasurer to invest that portion of the local agency's excess funds in a specific investment under the control of the County Treasurer. Such a petition should specifically state the nature of the funds the legislative body wishes to invest, and the reasons why the legislative body believes a specific investment is a preferable and viable alternative to the general Pools participation. Should the Treasurer determine that the request for a specific investment is valid and not overly counter-productive as to the Pool as a whole, the Treasurer will consult with the local agency's legislative body, or its appointed representative, to suggest and determine exactly what investment(s) should be purchased to fulfill the needs of the local agency. The Treasurer will then purchase the specific investment(s) upon receipt of a written resolution issued by the legislative body of the local agency, requesting the specific investment. The resolution must acknowledge that the local agency's legislative body takes full responsibility for the decision to purchase the specific investment(s), and that should conditions change requiring a sale prior to maturity of the specific investment(s), any loss that might be suffered as a result, will be solely that of the local agency, and that this loss shall not be shared by the Pool as a whole, nor by the County.

Under language added to the California Government Code §27133(h) and §27136 in 1995, it is not permissible for local agency legislative bodies, required to have their funds within the Pool, to withdraw funds from the Pool in order to invest outside the County Pool in any manner, at any time without specific permission of the Treasurer. Any such investments shall be either terminated and all funds returned to the Pool, or the securities so purchased must be transferred to the custody of the County Treasurer immediately. Upon receipt of any such securities by the Treasurer, the Treasurer shall at the Treasurer's option, place the investment in the Pool, terminate the investment at the current market value and credit the local agency with the proceeds, or place the security in the name of the local agency as a specific investment.

9.2 MONEY VOLUNTARILY INVESTED WITH THE POOL

Pursuant to Government Code §53684, the County Treasurer shall limit the amounts and set conditions under which money from local agencies, not required to have their funds in the investment Pool, may deposit and withdraw voluntarily invested funds. Funds from local agencies within the County, voluntarily wishing to participate in the Pool, will not be accepted under normal conditions unless the Treasurer is assured that these funds are in lieu of longer-term investments. Such deposits are subject to withdrawal restrictions for a set minimal term as to be agreed to prior to the funds being accepted into the Pool, and may not be withdrawn at any time without a minimum of 30 day notice of "intent to withdraw".

Under normal conditions, voluntary money withdrawn from the Pool will be disbursed on a dollar for dollar basis, plus appropriate interest, but under adverse market conditions, when the Treasurer deems the withdrawal of voluntary funds would cause undue losses or significantly lower earnings for those local agencies remaining within the Pool, the Treasurer may require one or more of the following remedies:

1. Restrict the percentage of funds that may be withdrawn in any given month;
2. Restrict the rate at which the funds may be withdrawn;
3. Require the local agency withdrawing their funds to accept their funds based on the current market value of the overall Pool.

These terms will be agreed to and contracts signed prior to any voluntary money being accepted into the County Investment Pool. Such terms may exceed minimum requirements set forth in the Government Codes.

Specific investments are not normally permitted with voluntary funds, though on a cost recovery basis and under circumstances that dictate such activity, exceptions may be permitted.

9.3 INCOME APPORTIONMENT

Pursuant to Government Code §27013 and §53684(b), the County Treasurer calculates and records all interest earned, received, and accrued for the Investment Pool on a daily basis. The apportionment of investment earnings to the various participants in the Investment Pool is performed at the end of each calendar quarter. The apportioned amount is computed as follows:

$$\text{Participating Share of Pool Income} = \frac{\text{Fund's Avg. Daily Equity} \times \text{Pool Total Income}}{\text{Total Pool Average Daily Equity}}$$

10.0 AUTHORIZED INVESTMENT INSTRUMENTS

The following defines in detail the parameters of each approved investment type. Any instrument not expressly permitted is prohibited. Specific limitations are provided on the maximum allowable percentage per investment category and further limitations by issuer within each investment category. With the exception of insured and/or collateralized bank deposits, overnight repurchase agreements, U.S. Government securities, including its agencies and instrumentalities, and authorized pools, no more than 10% of the County's aggregate investment portfolio may be invested in securities of a single issuer, regardless of sector. Where there is a percentage limitation for a particular category of investment, that percentage is only applicable at the time of purchase. If at the end of any quarter, any percentage in any restricted security is higher than the maximum allowed by category at time of purchase, the Treasurer shall take action within 90 days, to adjust the portfolio holdings so that the percentages are brought within the percentage limits.

A. Bonds issued by the County of Tulare, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the County of Tulare or by a department, board, agency, or authority of the County of Tulare.

B. United States Treasury bills, notes, bonds or certificates of indebtedness or those for which faith and credit of the United States are pledged for principal and interest.

C. Registered treasury notes or bonds of any of the 49 United States in addition to the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to the State of California. No more than 30% of the total portfolio may be invested in a combination of securities authorized by this paragraph and paragraph D, below.

D. Bonds, notes or warrants of the State of California and any local agency within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency. No more than 30% of the total portfolio may be invested in a combination of securities authorized by this paragraph and paragraph C, above.

E. Federal agency or United States government - sponsored enterprise obligation, 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, per California Government Code §53601. No more than 75% of the total portfolio may be invested in Agency Securities.

F. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as Bankers Acceptances, the short-term paper of which is rated in the highest category by a nationally recognized rating service. Purchases of Bankers Acceptances may not exceed 180 days maturity or 40 percent of the total portfolio which may be invested pursuant to this section.

G. Commercial Paper. Commercial paper of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

(1) The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation. (B) Has total assets in excess of five hundred million dollars ($500,000,000). (C) Has debt other than commercial paper, if any, that is rated in a rating category of “A” or its equivalent or higher by a nationally recognized statistical-rating organization.

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

Purchases of eligible commercial paper shall not exceed 270 days maturity. Purchases of commercial paper may not exceed 40 percent of the County’s total portfolio. (California Government Code §53635)

H. Negotiable Certificates of Deposit (California Government Code §53601(i)) issued by a nationally or state-chartered bank or a savings association or federal association or a state or federal credit union or a federally-licensed or state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated in a rating category of “A” or its equivalent or better by a nationally recognizing rating service. Purchases of negotiable certificates of deposit may not exceed 30 percent of the total portfolio which may be invested pursuant to this section. For the purpose of this section, negotiable certificates of deposit do not come within Article 2 of Chapter 4 of Part 1 of Division 2 of Title 5 of the Government code, except that the amount so invested shall be subject to the limitations of §53638.

I. Authorized by California Government Code §53601 and/or §53635.

(1) Investment in Repurchase Agreements or Reverse Repurchase Agreements of any securities authorized by California Government Code §53601 & §53635.

(2) Investment in Repurchase Agreements may be made on any investment authorized in California Government Code §53601 and §53635 when the term of the agreement does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily fluctuation, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day. No more than 50% of the total portfolio may be invested in overnight repurchase agreements.

(3) Reverse Repurchase Agreements may be utilized only when the following conditions are met: The security to be sold on Reverse Repurchase Agreement has been owned and fully paid for by the County of Tulare for a minimum of 30 days prior to sale, and the total of all Reverse Repurchase Agreements on investments owned by the local agency does not exceed 20 percent of the base portfolio, and the agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of the security using a Reverse Repurchase Agreement and the final maturity date of the same security.

(4) A Reverse Repurchase Agreement may not be entered into as a means of financing or paying for the security sold on a Reverse Repurchase Agreement, but may only be entered into in order to supplement the yield on securities owned and previously paid for or to provide funds for the immediate payment of an obligation of Tulare County.

(5) Investments in Reverse Repurchase Agreements or similar investments in which the local agency sells securities prior to purchase, may only be made upon prior approval of the Board of Supervisors of the County of Tulare and are limited to no more than 20% of the total portfolio.

(6) (a) “Repurchase Agreement” means a purchase of securities by the agency pursuant to an agreement by which the counter party seller will repurchase the securities on or before a specified date and for a specified amount and the counter party will deliver the underlying securities to the agency’s pool by book entry, physical delivery, or by third party custodial agreement. The transfer of underlying securities to the counter party bank’s customer book-entry account may be used for book-entry delivery.

(b) “Securities”, for the purpose of repurchase, means securities of the same issuer, description, issue date, and maturity.

(c) “Reverse Repurchase Agreement” means a sale of securities by the County Treasury pursuant to an agreement by which the agency will repurchase the securities on or before a specified date, and includes other comparable agreements.

(d) The base value of the County Treasury Pools portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pools by all pool participants, excluding any amounts obtained through selling securities by way of Reverse Repurchase Agreements or other similar borrowing methods.

(e) The spread is the difference between the cost of funds obtained using the Reverse Repurchase agreement and the earnings obtained on the reinvestment of the funds.

J. Medium-Term Notes with a maximum of five years' maturity 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. Notes eligible for investment shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Purchases of Medium-Term Notes may not exceed 30 percent of the agency's total portfolio which may be invested.

K. 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. To be eligible for investment these companies shall either:

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

(2) Have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market funds with assets under management in excess of five hundred million dollars ($500,000,000). The purchase price of shares of beneficial interest purchased, shall not include any commission that these companies may charge and shall not exceed 15 percent of the agency's total portfolio which may be invested pursuant to §53635 of the California Government Code.

L. FDIC insured or collateralized savings accounts, market rate accounts, certificates of deposits and other bank deposits in a state or national bank, savings association or federal association, a state or a federal credit union located in California. Any financial institution accepting County funds for deposit must comply with the requirements of Government Code §53630 et seq., including collateralization of deposits. The County may waive the collateralization requirements for any portion of the deposit that is covered by Federal Deposit Insurance. As provided by Government Code §53649, the County shall have a signed contract with each financial institution that has County funds on deposit.

M. Deposits at a commercial bank, savings bank, savings and loan association, or credit union placed through a deposit placement service that comply with the requirements under Government Code §53601.8 and §53635.8. The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by Federal Deposit Insurance.

N. Local Agency Investment Fund (LAIF). The maximum balance that can be held in the fund is the maximum amount permitted by State Treasury policy.

O. Managed Investment Pool's pursuant to California Government Code §53601(p) for which shares of beneficial interest issued by a joint powers authority organized pursuant to California Government Code §6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.

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

P. A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall:

(1) Have a maximum remaining maturity of five years or less.

(2) Be rated in a rating category of "AA" or its equivalent or better by a nationally recognized statistical-rating organization.

(3) Purchase of securities authorized by this subdivision may not exceed an accumulative total of 20 percent of the total portfolio.

(4) Purchase of securities authorized by this section is limited to the portion of the portfolio managed by an Investment Advisor on behalf of the County Treasurer.

Q. 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, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of “AA” or its equivalent or better by a nationally recognizing rating service and shall not exceed 30 percent of the total portfolio that may be invested pursuant to this section.

11.0 INELIGIBLE SECURITIES

1. Securities Lending
2. Inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages.
3. A local agency shall not invest any funds in any security that could result in zero interest accrual if held to maturity.
4. Financial futures and options.

12.0 REVIEW AND ANALYSIS OF PROSPECTIVE INVESTMENTS

The securities held by the Treasurer must be in compliance with Section 10 Authorized Investment Instruments at the time of purchase. Because some securities may not comply with Section 10 subsequent to the date of purchase, the Treasurer shall at least quarterly review the portfolio to identify those securities that do not comply. The Treasurer shall report to the Board of Supervisors and to its oversight committee, major and critical incidences of noncompliance identified through the review of the portfolio.

Due to the complexity of the various investment instruments available and uncertainty of market conditions the Treasurer may seek professional advice in making investment decisions in order to optimize investment selections, subject to §1-03-2062 of the Tulare County Ordinance Code.

13.0 COMPETITIVE BIDDING

When executing a transaction, the County and its external investment advisors shall seek bids or offerings from at least three broker/dealers on the approved list.

14.0 SAFEKEEPING

As required by California Government Code §53601, §53608 and §53635 all investment instruments in a negotiable, bearer, registered, or non-registered format, shall be delivered to the County of Tulare's custodial bank by using book entry or physical delivery. The "delivery vs. payment" purchase procedure shall be used. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts. No securities will be held by the broker/dealer from whom they were purchased.

15.0 POOL INVESTMENT PARAMETERS

Allowable Instruments	County Maximum % of Portfolio	Code Maximum % of Portfolio	County Maximum Maturity	Code Maximum Maturity	County % per Issuer[1]
U.S. Treasury Obligations (§53601(b))	100	100	5 Years	5 Years	100
U.S. Agency Obligations or U.S. Government Sponsored Enterprises (§53601(f))	75	100	5 Years	5 Years	100
Supranational Obligations (§53601(q))	30	30	5 Years	5 Years	10
Medium Term Notes (Corporate) (§53601(k))	30	30	5 Years	5 Years	10
Mortgage and Asset Backed Securities ((§53601(o))	20	20	5 Years	5 Years	10
Bankers' Acceptances (§53601(g))	40	40	180 Days	180 Days	10
Negotiable Certificates of Deposit (§53601(i))	30	30	5 Years	5 Years	10
Repurchase Agreement (§53601(j))	50	None	30 Days	1 Year	N/A
Reverse Repurchase Agreements (§53601(j))	20	20	92 Days	92 Days	10
Bank Time Deposits (§53630 et seq.)	30	None	3 Years	None	25
Bank Deposits – through deposit placement service (§53601.8)	30	50[2]	3 Years	None	25
Money Market Accounts (§53630 et seq.)	50	None	N/A	None	25
Commercial Paper (§53601(h) and (§53635(a))	40	40	270 Days	270 days	10
Money Market Funds (§53601(l))	15	20	N/A	N/A	10
Obligations issued by a State or local agencies within California or any of the other 49 United States (§53601(d)(e))	30	100	5 Years	5 Years	10
Tulare County (§53601(a))	15	100	5 Years	5 Years	10
L.A.I.F. (§16429.1)	Maximum Allowed	Per State Treasury Policy	N/A	N/A	N/A
Managed Investment Pool pursuant to GC §53601(p)	50	None	N/A	N/A	N/A

[1] With the exception of insured and/or collateralized bank deposits, overnight repurchase agreements, U.S. Government securities, including its agencies and instrumentalities, and authorized pools, no more than 10% of the County's aggregate investment portfolio may be invested in securities of a single issuer. Commercial paper is further limited to 5% of the outstanding paper of the issuing corporation.

[2] "Bank Deposits – through deposit placement services" code limit of 50% is in effect until January 1, 2026, at which time it will revert back to the previous limit of 30% in accordance with Assembly Bill 945.

16.0 MAXIMUM MATURITIES

No investment shall be made in any security with a maturity greater than five years, unless it is approved by the Board of Supervisors no less than three months prior to investment. Some investments are restricted to terms less than five years. These maturity limitations are described in this policy. The term “maturity” in this Policy is defined as an instrument’s stated legal final redemption date. The dollar-weighted average maturity of the portfolio shall not exceed 3.5 years.

17.0 INTERNAL CONTROLS

Pursuant California Government Code §27130 thru §27137, and the Tulare County Ordinance 1-05-1070 the Board of Supervisors, in consultation with the County Treasurer has created a County Treasury Oversight Committee to promote the public interest by involving depositors in the management of their funds and by enhancing the security and investment return of their funds through the establishment of criteria for the withdrawal of funds. The County of Tulare Treasury Oversight Committee shall annually review and monitor the Investment Policy and cause an annual audit to provide internal controls by assuring the Treasurer’s compliance with the Investment Policy. Nothing in this policy shall be construed to allow the County Treasury Oversight Committee to direct individual investment decisions, select individual investment advisors, brokers or dealers, or impinge on the day-to-day operations of the County Treasury.

In compliance with §27132 of the California Government Code, the County Treasurer Oversight Committee shall consist of the following:

a) The County Auditor-Controller/Treasurer-Tax Collector
b) A representative appointed by the Board of Supervisors or his/her designee
c) The Superintendent of Schools or his designee
d) A School District designee
e) A Special District designee
f) Two members of the public with expertise, or academic background in public finance.

18.0 PERFORMANCE MEASUREMENT

The investment portfolio will be managed in accordance with the parameters specified within this policy. The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. The investment performance objective for the portion of the portfolio managed by the Investment Managers/Advisors shall be to earn a total rate of return which is approximately equal to or greater than the return on a portfolio/index of securities with commensurate risk. The rate of return on the portion of the portfolio managed in-house will be compared to the Local Agency Investment Fund (LAIF) and the average two- year Treasury note. The investment performance measurement benchmarks for the Investment Managers/Advisors shall be stated on the quarterly report based on current contractual agreements. Additional indexes may be used and presented for comparison purposes only.

19.0 REPORTING

The Treasurer provides a quarterly Investment Report to the Board of Supervisors, County Administrative Officer, the County Auditor, and the Oversight Committee, within thirty (30) days following the end of the quarter covered by the report. The quarterly investment report contains, but is not limited to, the following investment information:

A. The type of investment, name of issuer, date of maturity, par and dollar amount invested in all securities, investments, and monies;
B. A description of any funds, investments that are under the management of contracted parties;
C. The market value as of the date of the report, and the source of this valuation for any security within the Treasury or under management by contract;
D. The weighted average maturity of investments within the Treasury;
E. Purchase dates, book values, and current credit rating of issuers;
F. Yield to maturity;
G. Overall portfolio yield based on cost;
H. Statement that the portfolio is in compliance with the Investment Policy or the manner in which the portfolio is not in compliance;
I. A statement denoting the County's ability to meet its expenditure requirements for the next six months, or an explanation as to why sufficient money shall not be available.

In addition to the Quarterly reports, the Treasury also provides a monthly summary Investment Report to the Board of Supervisors, County Administrative Officer, the County Auditor, and the Oversight Committee. The monthly investment reports contains, but is not limited to, the following investment information:

A. The type of investment, name of issuer, date of maturity, par and dollar amount invested in all securities, investments, and monies;
B. A description of any funds, investments that are under the management of contracted parties;
C. The market value as of the date of the report, and the source of this valuation for any security within the Treasury or under management by contract;
D. The weighted average maturity of investments within the Treasury;
E. Purchase dates, book values, and market values;
F. Yield to maturity;
G. Statement that the portfolio is in compliance with the Investment Policy or the manner in which the portfolio is not in compliance;

20.0 INVESTMENT POLICY ADOPTION

The Tulare County Treasurer's Investment Policy Statement for the Pooled Investment Fund is presented annually to the Treasury Oversight Committee for review and to the County Board of Supervisors for approval as recommended by California Government Code §53646 and §27133 and shall remain in effect until the succeeding policy is adopted.

21.0 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:

FARMER MAC. The Federal Agricultural Mortgage Corporation is a federally chartered GSE that is an institution of the Farm Credit System. Farmer Mac services as secondary market in agricultural loans such as mortgages for agricultural real estate and rural housing.

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 "FreddieMac" issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and FreddieMac, 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 "GinnieMae," issues mortgage pass-through securities, which are 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 his 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.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

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.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (Annual Report). The official annual report of the Tulare County Investment Pool. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed statistical sections.

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 his 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.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC). A federal agency that insures bank deposits, currently up to $250,000 per entity.

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 HOME LOAN BANKS (FHLB). Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

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

FEDERAL OPEN MARKET COMMITTEE (FOMC). Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. 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., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR GINNIEMAE). Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. GinnieMae securities are backed by the FHA, VA or FHA mortgages. The term "pass-throughs" is often used to describe GinnieMaes.

GOVERNMENT-SPONSORED ENTERPRISE (GSE). Quasi-governmental entity established to enhance the flow of credit to specific sectors of the American economy.Created by acts of Congress, these agencies, although privately held, provide public financial services. GSEs help to facilitate borrowing for a variety of individuals, including students, farmers, and homeowners. Fannie Mae, Freddie Mac, the Federal Home Loan Bank System, and the Federal Farm Credit System are all considered GSEs.

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.

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.

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

Maturity. The final date upon which the principal of a security becomes due and payable.

Medium Term Notes. All corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating in the United States or by depository institutions licensed by the United States or any state and operating with the United States.

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 and are payable upon order to the bearer or initial depositor (investor).

Offer. The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

Open Market Operations. Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

Portfolio. Collection of securities held by an investor.

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

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."

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. This may be the amortized yield to maturity on a bond the current income return.

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.

Repurchase Agreement (REPO). 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.

Reverse Repurchase Agreement (Reverse REPO). A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

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

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

Securities & Exchange Commission (SEC). Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC Rule 15(C)3-1: See Uniform Net Capital Rule.

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. Examples of a supranational organization include International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

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.

UNIFORM NET CAPITAL RULE. Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

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

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.