



CITY OF SEAL BEACH

Statement of Investment Policy

SECTION 1 – POLICY

This Statement of Investment Policy is intended to identify the policies for prudent investment of temporarily idle funds of the City of Seal Beach (the “City”) by providing guidelines for suitable investments while maximizing the efficiency of the City’s Cash Management Program.

The City’s Cash Management Program is designed to accurately monitor and forecast expenditures and revenues, thus enabling the investment of funds to the fullest extent possible.

The investment policies and practices of the City of Seal Beach are based upon state law and prudent money management. All funds will be invested in accordance with California Government Code Sections 53601 et seq. and the City’s Investment Policy.

SECTION 2 – SCOPE

The Investment Policy applies to all funds and investment activities of the City except the investment of bond proceeds, which are governed by the appropriate bond documents, and any pension or other post-employment benefit funds held in a trust.

SECTION 3 – PRUDENCE

The standard of prudence to be used by investment officials will be the “prudent investor” standard, which states that, “when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.”

SECTION 4 – OBJECTIVES

The primary objectives, in priority order, of the investment activities of the City are:

1. SAFETY – Safety of principal is the foremost objective of the City of Seal Beach.
2. LIQUIDITY – The City’s portfolio will remain sufficiently liquid to enable the City to meet its cash flow requirements. It is important that the portfolio contain investments which provide the ability of being easily sold at any time with minimal risk of loss of principal or interest.
3. YIELD – The City’s portfolio will be designed to attain a market rate of return through economic cycles consistent with the constraints imposed by its safety objective and cash flow considerations.

SECTION 5 – DELEGATION OF AUTHORITY

Pursuant to California Government Code Section 53607, the City Council has delegated its investment authority and the management responsibility for the investment program to the Director of Finance/City Treasurer for a period of one year concurrently with the City Council’s adoption of this Investment Policy. This delegation of investment authority is subject to review and annual renewal by the City Council in its discretion, which annual renewal may be made by the City Council in connection with its annual budget adoption or an amendment to this Investment Policy, or at such other time as appropriate and convenient. The Director of Finance/City Treasurer will monitor and review all investments for consistency with this Investment Policy. The Director of Finance/City Treasurer may grant investment decision making and execution authority to an investment advisor, provided that the Director of Finance/City Treasurer exercises prudence in the selection of the investment advisor, imposes suitable safeguards to prevent abuse in the exercise of discretion by the investment advisor, and remains responsible for any investment decisions made by the investment advisor. The advisor will follow the Investment Policy and such other written instructions as are provided.

SECTION 6 – INVESTMENT PROCEDURES

The Director of Finance/City Treasurer will establish investment procedures for the operation of the City’s investment program.

SECTION 7 – ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process will refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

SECTION 8 – AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

If the City is executing transactions on its own behalf, other than those executed directly with issuer, the Director of Finance/City Treasurer will maintain a list of financial dealers and institutions qualified and authorized to transact business with the City.

In accordance with California Government Code Section 53601.5, the purchase by the City of any investment other than those purchased directly from the issuer, will be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporations Code, which is a member of the Financial Industry Regulatory Authority (FINRA), or a member of a federally regulated securities exchange, a national or state chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

The Director of Finance/City Treasurer will investigate all institutions that wish to do business with the City, to determine if they are adequately capitalized, make markets in securities appropriate for the City's needs, and agree to abide by the conditions set forth in the City of Seal Beach's Investment Policy and any other guidelines that may be provided. This will be done annually by having the financial institutions:

1. Provide written notification that they have read, and will abide by, the City's Investment Policy.
2. Submit their most recent audited Financial Statement within 120 days of the institution's fiscal year end.

If the City has an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of the City, provided that the broker/dealer meets the requirements of the second paragraph, above, in this Section 8.

Purchase and sale of securities will be made on the basis of competitive bids and offers with a minimum of three quotes being obtained.

SECTION 9 – AUTHORIZED AND SUITABLE INVESTMENTS

Where this section specifies a percentage limitation for a particular security type, that percentage is applicable only on the date of purchase. Credit criteria listed in this section refers to the credit rating at the time the security is purchased. If an investment's credit rating falls below the minimum rating required at the time of purchase, the Director of Finance/City Treasurer will perform a timely review and decide whether to sell or hold the investment.

The City will limit investments in any one non-government issuer, except investment pools, to no more than 5% regardless of security type.

1. **U.S. Treasury obligations** for which the full faith and credit of the United States are pledged for the payment of principal and interest.
2. **Federal agency or United States government-sponsored enterprise obligations**, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. This will include any mortgage pass through security issued and guaranteed by a Federal Agency with a maximum final maturity of five years. Purchase of Federal Agency issued mortgage-backed securities authorized by this subdivision may not exceed 20% of the City's investment portfolio; portfolio concentration for all other investments in Federal Agency securities is unrestricted.
3. **Obligations of the State of California or any local agency within the state**, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency, or by a department, board, agency or authority of the state or any local agency.
4. **Registered treasury notes or bonds of any of the other 49 states in addition to California**, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state, or by a department, board, agency, or authority of any of these states.
5. **Bankers' Acceptances** with a rating of the highest ranking or highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). Purchases of bankers' acceptances may not exceed 180 days. No more than 40% of the City's portfolio may be invested in bankers' acceptances.
6. **Commercial Paper** of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper must meet all of the following conditions in either paragraph a or paragraph b:
 - a. The entity meets the following criteria: (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of five hundred million dollars (\$500,000,000), and (iii) has debt other than commercial paper, if any, that is rated in a rating category of "A" or higher, or the equivalent, by a NRSRO.
 - b. The entity meets the following criteria: (i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond, and (iii) has commercial paper that is rated in a rating category of "A-1" or higher, or the equivalent, by a NRSRO.

Eligible commercial paper will have a maximum maturity of 270 days or less. No more than 25% of the City's portfolio may be invested in commercial paper. The City may purchase no more than 10% of the outstanding commercial paper of any single issuer.

- 7. Non-negotiable Certificates of Deposit** (time CDs) in a state or national bank, savings association or federal association, or federal or state credit union with a branch in the State of California. In accordance with California Government Code Section 53635.2, to be eligible to receive City deposits, a financial institution will have received an overall rating of not less than "satisfactory" in its most recent evaluation, pursuant to the federal Community Reinvestment Act, by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities. Time CDs are required to be collateralized as specified under Government Code Section 53630 et seq. The City, at its discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance. The City will have a signed agreement with any depository accepting City funds per Government Code Section 53649. No deposits will be made at any time in time CDs issued by a state or federal credit union if a member of the City Council or the Director of Finance/City Treasurer serves on the board of directors or any committee appointed by the board of directors of the credit union. In accordance with Government Code Section 53638, any deposit will not exceed that total shareholder's equity of any depository bank, nor will the deposit exceed the total net worth of any institution.
- 8. Negotiable Certificates of Deposit** issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally- or state-licensed branch of a foreign bank. No more than 30% of the City's portfolio may be invested in negotiable CDs.
- 9. Medium-Term Notes** issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes will be rated in a rating category "A" or its equivalent or better by a NRSRO. No more than 30% of the City's portfolio may be invested in medium-term notes.
- 10. Shares of beneficial interest issued by diversified management companies** that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies will either: (i) attain the highest ranking letter or numerical rating provided by at least two NRSROs or (ii) have retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds and with assets under management in excess of \$500,000,000. In

addition, an eligible money market fund must maintain a stable net asset value (NAV). No more than 20% of the City's investment portfolio may be invested in money market funds.

11.State of California's Local Agency Investment Fund (LAIF) an investment pool run by the State Treasurer. The City can invest up to the maximum amount permitted by the State Treasurer.

12.Shares of beneficial interest issued by a joint powers authority (Local Government Investment Pools) organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q) of California Government Code Section 53601, inclusive. Each share will represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. The Pool will be rated in a rating category "AAA" or its equivalent by a NRSRO. To be eligible under this section, the shares will maintain a stable net asset value (NAV) and the joint powers authority issuing the shares will have retained an investment adviser that meets all of the following criteria:

- a. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
- b. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q) Government Code Section 53601, inclusive.
- c. The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

13.Asset-Backed Securities (ABS) such as 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 of a maximum remaining maturity of five years or less. ABS eligible for investment shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO. No more than 20% of the City's investment portfolio may be invested in ABS.

14.Supranationals. 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. Obligations issues by supranationals will be rated in a rating category "AA" or better by an NRSRO. No more than 30% of the City's investment portfolio may be invested in supranationals.

SECTION 10 – INVESTMENT POOLS/MONEY MARKET FUNDS

A thorough investigation of investment pools and money market funds is required prior to investing, and on a continual basis.

SECTION 11 – MAXIMUM MATURITY

Maturities will be based on an analysis of the receipt of revenues and maturity of investments. Maturities will be scheduled to permit the City to meet all disbursement requirements.

The City may not invest in a security whose maturity exceeds five years from the date of purchase unless City Council has provided approval for a specific purpose at least 90 days before the investment is made.

SECTION 12 – PROHIBITED INVESTMENTS

Investments not described herein, including, but not limited to, reverse repurchase agreements, stocks, inverse floaters, range notes, commercial mortgage-backed, interest-only strips, or any security that could result in zero interest accrual if held to maturity are prohibited for investment by the City.

SECTION 13 – INTERNAL CONTROL

The Director of Finance/City Treasurer will establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

SECTION 14 – CUSTODY OF SECURITIES

All securities owned by the City except time deposits and securities used as collateral for repurchase agreements (if added to this Investment Policy as an authorized investment), will be kept in safekeeping by a third-party bank's trust department, acting as an agent for the City under the terms of a custody agreement executed by the bank and the City.

All securities will be received and delivered using standard delivery versus payment procedures.

SECTION 15 – REPORTING

The Director of Finance/City Treasurer will provide a monthly investment report to the City Council showing all transactions, type of investment, issuer, purchase date,

maturity date, purchase price, par amount, yield to maturity, and current market value for all securities.

SECTION 16 – POLICY REVIEW

This Investment Policy will be reviewed at least annually to ensure its consistency with:

1. The California Government Code sections that regulate the investment and reporting of public funds.
2. The overall objectives of preservation of principal, sufficient liquidity, and a market return.

Glossary

Asset-Backed Securities (ABS) are securities whose income payments and hence value is derived from and collateralized (or "backed") by a specified pool of underlying assets which are receivables. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can comprise common payments credit cards, auto loans, mortgage loans, and other types of assets. Interest and principal is paid to investors from borrowers who are paying down their debt.

Bankers' Acceptances are short-term credit arrangements to enable businesses to obtain funds to finance commercial transactions. They are time drafts drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. By its acceptance, the bank becomes primarily liable for the payment of the draft at maturity. An acceptance is a high-grade negotiable instrument.

Broker-Dealer is a person or a firm who can act as a broker or a dealer depending on the transaction. A broker brings buyers and sellers together for a commission. They do not take a position. A dealer acts as a principal in all transactions, buying and selling for his own account.

Certificates Of Deposit

- 1. Negotiable Certificates of Deposit** are large-denomination CDs. They are issued at face value and typically pay interest at maturity, if maturing in less than 12 months. CDs that mature beyond this range pay interest semi-annually. Negotiable CDs are issued by U.S. banks (domestic CDs), U.S. branches of foreign banks (Yankee CDs), and thrifts. There is an active secondary market for negotiable domestic and Yankee CDs. However, the negotiable thrift CD secondary market is limited. Yields on CDs exceed those on U.S. treasuries and agencies of similar maturities. This higher yield compensates the investor for accepting the risk of reduced liquidity and the risk that the issuing bank might fail. State law does not require the collateralization of negotiable CDs.
- 2. Non-negotiable Certificates of Deposit** are time deposits with financial institutions that earn interest at a specified rate for a specified term. Liquidation of the CD prior to maturity incurs a penalty. There is no secondary market for these instruments, therefore, they are not liquid. They are classified as public deposits, and financial institutions are required to collateralize them. Collateral may be waived for the portion of the deposits that are covered by FDIC insurance.

Collateral refers to securities, evidence of deposits, or other property that a borrower pledges to secure repayment of a loan. It also refers to securities pledged by a bank to secure deposits. In California, repurchase agreements, reverse repurchase agreements, and public deposits must be collateralized.

Commercial Paper is a short term, unsecured, promissory note issued by a corporation to raise working capital.

Federal Agency Obligations are issued by U.S. Government Agencies or Government Sponsored Enterprises (GSE). Although they were created or sponsored by the U.S. Government, most Agencies and GSEs are not guaranteed by the United States Government. Examples of these securities are notes, bonds, bills and discount notes issued by Fannie Mae (FNMA), Freddie Mac (FHLMC), the Federal Home Loan Bank system (FHLB), and Federal Farm Credit Bank (FFCB). The Agency market is a very large and liquid market, with billions traded every day.

Issuer means any corporation, governmental unit, or financial institution that borrows money through the sale of securities.

Liquidity refers to the ease and speed with which an asset can be converted into cash without loss of value. In the money market, a security is said to be liquid if the difference between the bid and asked prices is narrow and reasonably sized trades can be done at those quotes.

Local Agency Investment Fund (LAIF) is a special fund in the State Treasury that local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum of \$65 million for any California public agency. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via direct deposit to the agency's LAIF account. The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of one per cent of the earnings.

Market Value is the price at which a security is trading and could presumably be purchased or sold.

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

Medium-Term Notes are debt obligations issued by corporations and banks, usually in the form of unsecured promissory notes. These are negotiable instruments that can be bought and sold in a large and active secondary market. For the purposes of California Government Code, the term "Medium Term" refers to a maximum remaining maturity of five years or less. They can be issued with fixed or floating-rate coupons, and with or

without early call features, although the vast majority are fixed-rate and non-callable. Corporate notes have greater risk than Treasuries or Agencies because they rely on the ability of the issuer to make payment of principal and interest.

Money Market Fund is a type of investment comprising a variety of short-term securities with high quality and high liquidity. The fund provides interest to shareholders. Prior to amendments to the money market fund regulations adopted by the U.S. Securities and Exchange Commission in 2014, all money market funds were required to strive to maintain a stable net asset value (NAV) of \$1 per share. Following the 2014 money market fund reform, certain money market funds are required to sell and redeem shares based on the current market-based value of the securities in their underlying portfolios rounded to the fourth decimal place (i.e., transact at a floating or fluctuating net asset value (NAV)). Accordingly, money market funds available today may be either a floating NAV money market fund or a stable NAV money market fund.

Principal describes the original cost of a security. It represents the amount of capital or money that the investor pays for the investment.

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

Supranationals are securities issued or unconditionally guaranteed by multi-lateral international financial institutions whose member nations contribute capital and participate in management.

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

1. **Treasury Bills** which are non-interest-bearing discount securities issued by the U.S. Treasury to finance the national debt. Bills are currently issued in 4-week, 8-week, 13-week, 26-week, and 52-week maturities.
2. **Treasury Notes** that have original maturities of one to ten years.
3. **Treasury Bonds** that have original maturities of greater than 10 years.

Yield to Maturity is the rate of income return on an investment, minus any premium above par or plus any discount with the adjustment spread over the period from the date of the purchase to the date of maturity of the bond.