CITY OF ELK GROVE

INVESTMENT POLICY

Fiscal Year 2023-2024

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I. PURPOSE

This statement is intended to provide guidelines for the prudent investment of the City's surplus money in its treasury (hereinafter "Investment Cash") and to outline policies for maximizing the efficiency of the City's Investment Cash management system. The ultimate goal is to enhance the City's economic status while protecting its pooled Investment Cash.

II. POLICY

It is the policy of the City of Elk Grove to invest public funds in a manner that will provide a sound investment return with maximum security while meeting the City's daily cash flow demands and conforming to all state and local statutes governing the investment of public funds. The City of Elk Grove's investment policy has three objectives: (1) protect principal, (2) provide for liquidity needs, and (3) obtain the most reasonable rate of return possible within the first two objectives. The City operates its investment activities under the "prudent investor" standard (see discussion below). This affords a broad spectrum of investment opportunities so long as the investment is deemed prudent and permissible under current state and local law.

III. SCOPE

This investment policy applies to all liquid financial assets of the City of Elk Grove and investment activities under the direct authority of the City, as outlined in the State Government Code, Sections 53600 et seq., with the following exceptions:

- Proceeds of debt issuance shall be invested following the City's general investment philosophy as outlined in this policy; however, such proceeds are to be invested according to the permitted investment provisions of their specific bond indentures.
- The City's OPEB funds shall be invested per its separate investment policy.

IV. PRUDENT INVESTOR STANDARD

The City Council and all persons authorized to make investment decisions on behalf of the City are trustees and, therefore, fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, prudence, and diligence under the circumstances then prevailing, including but not limited to the general economic conditions and the anticipated needs of the City, 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 City. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

The City recognizes that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized that in a well-diversified investment portfolio, occasional sales and measured gains or losses may be inevitable and must be considered within the context of the overall investment program objectives and the resultant long-term rate of return.

The City Treasurer and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported promptly, and appropriate action is taken to control adverse developments.

V. OBJECTIVES

The City's cash management system is designed to monitor and forecast expenditures and revenues accurately, thus enabling the City to invest Investment Cash to the fullest extent possible. The City strives to obtain the most reasonable return possible as long as investments meet the criteria for safety and liquidity.

Safety
The safety of principal is the foremost objective of the investment program. Accordingly, City investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. To attain this objective, diversification is required so that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity
The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. This goal shall be achieved by maintaining a prudent portion of the City’s portfolio in liquid, short-term instruments which can readily be converted to cash if necessary.

Return on Investment
The City’s investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, commensurate with the City’s investment risk constraints and the cash flow characteristics of the portfolio. Accordingly, the City will attempt to obtain the most reasonable return possible when selecting an investment, provided the criteria for safety and liquidity are met.

VI. DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived from California Government Code, Sections 41006 and 53600 et seq.

The City Council is responsible for managing the City's funds, including administering this investment policy. Per California Government Code Section 53607, the Elk Grove City Council has authorized the City Treasurer to invest on behalf of the City, to manage the City's investment program consistent with this investment policy, and to maintain a system of internal controls to regulate the activities of subordinate officials. Such procedures will include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

The City may engage the services of one or more external investment advisers registered under the Investment Advisers Act of 1940 to assist in managing the City's investment portfolio in a manner consistent with the City's objectives. External investment advisers may be granted discretion to purchase and sell investment securities following this investment policy.

VII. PUBLIC TRUST

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

VIII. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with the proper execution of the investment program or impairs their ability to make impartial investment decisions. Officers and employees shall disclose to the City Treasurer any material interests in financial institutions with which they conduct business. They shall further disclose any significant personal financial/investment positions that could be related to the investment portfolio's performance. Officers and employees shall also refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the City. Additionally, the City Treasurer (Finance Director) and other key finance personnel must annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC).

IX. QUALIFIED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

To the extent practicable, the City Treasurer shall endeavor to complete investment transactions using a competitive bid process whenever possible. The City Treasurer will determine which financial institutions are authorized to provide investment services to the City. The City shall transact business only with qualified banks, savings and loans, and broker/dealers. The City Treasurer shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions approved for investment purposes that are selected through a process of due diligence as determined by the City Treasurer. Due inquiry shall assess whether such authorized broker/dealers, and the individuals covering the City are reputable and trustworthy, knowledgeable and experienced in Public Agency investing, and able to meet all their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

Per Section 53601.5, institutions eligible to transact investment business with the City include:

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

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the City, except where the City utilizes an external investment adviser, in which case the City may rely on the adviser for selection. The City shall send a copy of the current investment policy to all broker/dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the City's investment policies and intends to sell the City only appropriate investments authorized by this investment policy.

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

Selection of broker/dealers used by an external investment adviser retained by the City will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected competitively, and their bid or offering prices shall be recorded. If there is no other available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

X. AUTHORIZED INVESTMENTS

Investment of City funds is governed by the California Government Code Sections 53600 et. seq. Within the context of code limitations, the following investments and their respective additional limitations are authorized as listed below. If a discrepancy between this policy and the Code is found, the more restrictive parameters will take precedence. Percentage holding limits and minimum credit criteria listed in this section apply when the security is purchased.

Any investment currently held when the policy is adopted that does not meet the new policy guidelines can be held until maturity and shall be exempt from the current policy. At the time of the investment's maturity or liquidation, such funds shall be reinvested only as provided in the current policy.

An appropriate risk level shall be maintained by primarily purchasing high-quality, liquid, and marketable securities. In addition, the portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers.

1. United States Treasury Bills, Bonds, and Notes are those for which the full faith and credit of the United States are pledged to pay principal and interest. There is no dollar amount or percentage limitation of the portfolio which can be invested in this category, provided that the maximum maturity is five (5) years.

2. Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, such as but not exclusively issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Association (FHLMC) whose principal and interest are fully guaranteed by federal agencies or United States government-sponsored enterprises. There is no dollar amount or percentage limitation of the portfolio which can be invested in this category, provided that no more than 30% of the portfolio may be invested in any single Agency/GSE issuer. The maximum maturity does not exceed five (5) years. The maximum percent of agency callable securities in the portfolio will be 20%.

3. Local Agency Investment Fund (LAIF), a State of California-managed investment pool, may be used as permitted by California State Government Code, Title 2, Division 4, Part 2, Chapter 2, Article 11, commencing with section 16429.1. The City may invest up to the maximum amount permitted by LAIF. LAIF's investments in instruments prohibited by or not specified in the City's policy do not exclude the investment in LAIF itself from the City's list of authorized investments, provided LAIF's reports allow the Treasurer to adequately judge the risk inherent in LAIF's portfolio.

4. Shares of Beneficial Interest issued by a Joint Powers Authority, including the Investment Trust of California, CalTRUST, which is a Joint Powers Authority managed investment pool permitted as an investment type by California State Government Code, Section 6500 and 6509.7. The City can invest in this category, provided the City is a member of the Joint Powers Authority and, therefore, a voting member. Each Liquidity, Short Term, or Medium Term Account managed by CalTRUST is an eligible investment. Investments in any one fund or in the aggregate of this investment type shall not exceed 30% of the City's investment portfolio at the time of purchase.

5. Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as Bankers' Acceptances, provided that They are issued by institutions that have short-term debt obligations rated "A-1" or its equivalent or better by at least one nationally recognized statistical rating organization (NRSRO); or long-term debt obligations which are rated in a rating category of "A" or its equivalent or better by at least one NRSRO. Bankers' acceptances purchased may not exceed 180 days to maturity or 40% of the City's Investment Cash at the time of purchase. Additionally, no more than 5% of the portfolio may be invested in any single issuer.

6. Commercial paper provided that the securities are issued by an entity that meets all of the following conditions in either paragraph (a) or (b) and other requirements specified below:

a) Securities issued by corporations:
   i. A corporation organized and operating in the United States with over $500 million in assets.
   ii. The securities are rated "A-1" or its equivalent or better by at least one NRSRO.
   iii. If the issuer has other debt obligations, they must be rated in a rating category of "A" or its equivalent or better by at least one NRSRO.

b) Securities issued by other entities:
   i. The issuer is organized within the United States as a special purpose corporation, trust, or limited liability company.
   ii. The securities must have program-wide credit enhancements including, but not limited to, over-collateralization, letters of credit, or a surety bond.
   iii. The securities are rated "A-1" or its equivalent or better by at least one NRSRO.

Purchases of commercial paper may not exceed 25% of the City's Investment Cash. Under a provision sunsetting on January 1, 2026, no more than 40% of the portfolio may be invested in Commercial Paper if the Agency's investment assets under management are greater than $100,000,000, nor may those purchases exceed 270 days to maturity, nor represent more than 10% of the outstanding paper of the issuing corporation. In addition, investment in any one institution may not exceed more than 5% of the City's Investment Cash at the time of purchase.

7. Negotiable certificates of deposit issued by nationally or state-chartered banks, a savings association or federal association, a state or federal credit union, or by a federally-licensed or state-licensed branch of a foreign bank. The amount of the NCD insured up to the FDIC limit does not require any credit ratings. However, any amount above the FDIC-insured limit must be issued by institutions that have short-term debt obligations rated “A-1” or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of “A” or its equivalent or better by at least one NRSRO. Purchases of negotiable certificates of deposit may not exceed 30% of the City’s Investment Cash at the time of purchase. Investment in any one institution may not exceed more than 5% of the City’s Investment Cash at the time of purchase. The maximum maturity may not exceed five (5) years.

8. Repurchase agreements that specify terms and conditions may be transacted with banks and broker/dealers. Repurchase agreements must be collateralized with securities authorized under California Government Code. Investment in repurchase agreements may not exceed 20% of the City’s Investment Cash at the date entered into. The maturity of the repurchase agreements shall not exceed 90 days. The market value of the securities used as collateral for the repurchase agreements shall be monitored by the investment staff and shall not be allowed to fall below 102% of the value of the repurchase agreement. A Master Repurchase Agreement must be executed with the bank or dealer before investing in a Repurchase Agreement.

9. Time deposits, non-negotiable and collateralized per the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 25% of the investment portfolio may be invested in this investment type. Investment in any one institution may not exceed more than 5% of the City’s Investment Cash at the time of purchase. The maximum maturity may not exceed five (5) years.

10. Medium Term Corporation Notes, provided that the issuer is a corporation 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. The maximum maturity may not exceed five (5) years. Securities eligible for investment shall be rated in a rating category of “A” or its equivalent or better by at least one NRSRO. Purchase of medium-term notes may not exceed 30% of the City’s Investment Cash at the time of purchase, and no more than 5% of the City’s Investment Cash, at the time of purchase may be invested in notes issued by any single issuer.

11. <u>Shares of beneficial interest issued by diversified management companies that are mutual funds and money market mutual funds</u> that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that:

A. <u>Mutual Funds</u> that invest in the securities and obligations as authorized under California Government Code, Section 53601 (a) to (k) and (m) to (q) inclusive and that meet either of the following criteria:

   i. Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
   ii. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with at least five years experience investing in the securities and obligations authorized by California Government Code, Section 53601, and with assets under management over $500 million.

- No more than 10% of the total portfolio may be invested in shares of any mutual fund.

B. <u>Money Market Mutual Funds</u> registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:

   i. Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
   ii. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with at least five years experience managing money market mutual funds with assets under management over $500 million.

- No more than 20% of the total portfolio may be invested in the shares of any one money market mutual fund. In addition, only funds holding U.S. Treasury or government agency obligations can be utilized.

- Investments in money market and mutual funds combined may not exceed 20% of the City's Investment Cash at the time of purchase.

12. <u>Municipal Securities of any California Local Agency,</u> including bonds, notes, warrants, or other indebtedness, provided the securities are rated in a rating category of "A" or its equivalent or better by at least one NRSRO. The City may also purchase its issued debt but may not resell it before maturity without obtaining a tax-exempt redetermination opinion from legal counsel. Purchases of Municipal Securities shall not exceed 20% of the City's investment portfolio at the time of purchase. Investment in any one issuer shall not exceed 5% at the time of purchase. Maturity shall be limited to a maximum of 60 months from the date of purchase. Purchases of Municipal Securities of any local agency outside of California are not permitted.

13. Registered treasury notes or bonds of the State of California, or 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 the State of California, or any of the other 49 states, in addition to California, provided the securities are rated in a rating category of “A” or its equivalent or better by at least one NRSRO. Investment in any one issuer shall not exceed 5% at the time of purchase. Maturity shall be limited to a maximum of 60 months from the date of purchase. Purchases of Municipal Securities of any local agency outside of California are not permitted.

14. Supranationals, United States dollar-denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, Inter-American Development Bank, or the International Finance Corporation, 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 Moody’s, Standard & Poor’s, or Fitch Ratings. Investments shall not exceed ten percent of the City’s portfolio. No more than 30% of the City’s Investment Cash may be invested in these securities. No more than 10% of the City’s Investment Cash may be invested in any issuer.

15. Asset-Backed, Mortgage-Backed, Mortgage Passthrough Securities, and Collateralized Mortgage Obligations from issuers not defined in Sections 1 and 2 of the Authorized Investments Section of this policy, provided that:

- The securities are rated in a “ AA “ rating category or its equivalent or better by an NRSRO.
- No more than 20% of the total portfolio may be invested in these securities.
- No more than 5% of the portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer.
- The maximum legal final maturity does not exceed five (5) years.

XI. Prohibited Investment Vehicles and Practices

- State law notwithstanding, any investments not explicitly described herein are prohibited, including, but not limited to, futures and options.
- Per Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage-derived interest-only strips is prohibited.
- Investment in any security that could result in a zero-interest accrual if held to maturity is prohibited. However, under a provision sunsetting on January 1, 2026, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted.
- Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
- Purchasing or selling securities on margin is prohibited.
- The use of reverse repurchase agreements, securities lending, or any other form of borrowing or leverage is prohibited.

- The purchase of foreign currency-denominated securities is prohibited.

XII. INVESTMENT POOLS/MUTUAL FUNDS

Government-sponsored pools and money market mutual funds are excellent short-term cash management facilities. These pools/funds can provide safety, liquidity, and yield in a single investment instrument. In addition, these funds provided additional diversity in that each fund share is a composite of the funds of the entire portfolio of various maturity lengths, asset classes, and specific investments. The City Treasurer shall thoroughly investigate any pool or mutual fund before investing and continually after that. The City Treasurer shall develop a questionnaire that will answer the following general questions:

- A description of eligible investment securities and a written statement of investment policy and objectives.
- A description of interest calculations, how they are distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), how often the securities are priced, and the program is audited.
- A description of who may invest in the program, how often, and what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc., utilized by the pool/fund?
- A fee schedule and when and how it is assessed.
- Is the pool/fund eligible for bond proceeds, and will it accept them?

XIII. COLLATERALIZATION

Collateralization shall be required on two types of investments:

1. Certificates of Deposit above the amount federally insured, and
2. Repurchase agreements.

The general collateralization level shall be 110% of the amount invested for Certificates of Deposit above the amount federally insured. If the security used for collateral is a mortgage-backed security, the collateralization level shall be 150% of the amount invested (Government Code sec. 53652).

For repurchase agreements, the collateralization level shall be at least 102% of the market value of the agreement.

The collateral shall be held by an independent third party with whom the entity has a current custodial agreement, and the right of collateral substitution is granted. To conform with the provisions of the Federal bankruptcy code, which provides for the liquidation of securities held as collateral, the only securities acceptable as collateral shall be certificates of deposit, commercial paper, eligible bankers' acceptances, medium-term notes, or securities that are the direct obligations of or are fully guaranteed as to principal and interest by the United States or any agency of the United States.

XIV. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery versus payment (DVP) basis and delivered to the City or the City's designated custodian upon receipt of payment by the City.

All securities that may be purchased, including collateral for repurchase agreements, shall be held by a third-party custodian designated by the Treasurer. These securities shall be held in the City's name and control, and safekeeping receipts shall evidence third-party custody. The third-party custodian shall send the City, every month, a statement of what is safe-kept, which shall be reconciled to the City's record monthly.

XV. DIVERSIFICATION INVESTMENT

The City's investment portfolio shall be diversified to avoid unreasonable and avoidable risks concerning specific investment types. The City shall also maintain a mix of securities within investment types to avoid concentrations within individual financial institutions, geographic areas, industry types, and maturity dates.

XVI. MAXIMUM MATURITIES

To the extent possible, the City of Elk Grove shall attempt to match its investments with anticipated cash flow requirements. However, unless matched to a specific cash flow, the City shall not directly invest in securities maturing more than five years from the date of trade settlement.

XVII. RISK MANAGEMENT AND DIVERSIFICATION

1. **Mitigating Credit Risk in the Portfolio**
   Credit risk is the risk that a security or a portfolio will lose some or all its value due to an actual or perceived change in the ability of the issuer to repay its debt. The City will mitigate credit risk by adopting the following strategies:

- The diversification requirements included in this policy's "Authorized Investments" section are designed to mitigate credit risk in the portfolio.
- No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.
- The City may sell a security before its maturity and record a capital gain or loss to manage the portfolio's quality, liquidity, or yield in response to market conditions or City's risk preferences.
- If a security owned by the City is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps will be taken:
    1. Any actions taken related to the downgrade by the investment manager will promptly be communicated to the City Treasurer.

2. If a decision is made to retain the security, the credit situation will be monitored and reported to the City Council.

2. Mitigating Market Risk in the Portfolio

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The City recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. Therefore, the City will mitigate market risk by providing adequate liquidity for short-term cash needs and making longer-term investments only with funds not needed for current cash flow purposes.

The City further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns before maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The City, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The City will maintain a minimum of six months of budgeted operating expenditures in short-term investments to provide sufficient liquidity for expected disbursements.
- The maximum stated final maturity of individual securities in the portfolio will be five (5) years from date of trade settlement, except as otherwise stated in this policy.
- The portfolio's duration will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the City based on the City's investment objectives, constraints, and risk tolerances.

XVIII. INTERNAL CONTROL

The City Treasurer establishes and maintains an internal control structure to protect the entity's assets from loss, theft, or misuse. The internal control structure shall be designed to reasonably ensure these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management. The City Treasurer shall also conduct an annual review of the investment program. This process may include testing the investment program by the City's external auditor to determine the extent of compliance with the Investment Policy.

All wire transfers initiated by the Finance Department will be confirmed to the appropriate financial institution. For each investment transaction, proper documentation obtained from confirmations and cash disbursement wire transfers is required. In addition, timely bank reconciliations are conducted to ensure the appropriate handling of all transactions.

XIX. PERFORMANCE STANDARDS

The City's investment portfolio shall be designed to attain a sound rate of return throughout budgetary and economic cycles, considering the City's investment risk constraints and the cash flow characteristics of the portfolio.

XX. PORTFOLIO MANAGEMENT ACTIVITY

The investment program shall seek to attain returns consistent with the intent of this policy, identified risk limitations, and prudent investment principles. The use of the following strategies shall achieve these objectives:

Active Portfolio Management
Through active fund and cash-flow management, taking advantage of current economic and interest rate trends, the portfolio yield may be enhanced with limited and measurable increases in risk by extending the duration of the City's Investment Cash.

Portfolio Maturity Management
When structuring the maturity composition of the portfolio, the City shall evaluate current and expected interest rate yields and necessary cash flow requirements. It is recognized that in normal market conditions, longer maturities produce higher yields. However, securities with longer maturities also experience greater price fluctuations when interest rates change.

Security Swaps
The City may use security swap opportunities to improve the overall portfolio yield. A swap that enhances the portfolio yield may be selected even if the transactions result in an accounting loss. Swap documentation shall be included in the City's permanent investment file documents.

XXI. PERIODIC TREASURY REPORTS

The City Treasurer shall review and render monthly reports to the City Manager and City Council, including the par value and cost of the investment, the type of investment, the name of the issuer, the coupon rate of interest, the maturity date, and the current market value.

XXII. INTEREST EARNINGS

All interest earned and collected from investments authorized in this policy shall be allocated monthly to all pooled cash funds based on the cash balance in each fund as a percentage of the entire pooled portfolio.

XXIII. LIMITING MARKET VALUE EROSION

It is the general policy of the City to limit the potential effects of erosion in market values by adhering to the following guidelines:

- All immediate and anticipated liquidity requirements shall be addressed before purchasing investments.

- Maturity dates for investments shall coincide with significant cash flow requirements, where possible, to assist with cash requirements at maturity.
- All securities shall be purchased with the intent to hold all investments to maturity. However, economic or market conditions may change, making it in the City's best interest to sell or trade a security before maturity.

XXIV. STATEMENT OF INVESTMENT POLICY

The City's Investment Policy shall be adopted by a City Council resolution. This policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, and yield and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to the City Council for approval.

XXV. GLOSSARY OF TERMS

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

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

Certificate of Deposit – A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs are typically negotiable. CDs may be eligible for FDIC insurance.

Collateral - Securities, evidence of deposit, or pledges to secure loan repayment. It also refers to securities pledged by a bank to secure deposits of public funds.

Custody - A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive, and deliver securities when ordered to do so by the principal.

Delivery vs. Payment (DVP) - Delivery of securities with a simultaneous exchange of money for the securities.

Diversification - Dividing investment funds among securities offering independent returns and risk profiles.

Federal Home Loan Banks (FHLB) – Government-sponsored wholesale banks which lend funds and provide correspondent banking services to member commercial banks, thrifty 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 Home Loan Mortgage Corporation (FHLMC) – The FHLMC was created under the Federal Home Loan Mortgage Act, Title III of the Emergency Home Finance Act of 1970, as a stockholder-owned government-sponsored enterprise. Freddie Mac, as the corporation is called, is charged with providing stability and assistance to the secondary home mortgage market by buying first mortgages and participation interests and reselling these securities as guaranteed mortgage securities. Although the federal government does not explicitly guarantee agency obligations, the rating agencies believe that in the unlikely event of financial difficulties, the federal government will support the agency to the extent necessary to provide complete and timely payment on their securities.

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 principal and interest payment.

Government National Mortgage Association (GNMA) – Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. The full faith and credit of the U.S. Government protect the security holder. Ginnie Mae securities are backed by the FHA, VA, or FHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

Interest Rate - The annual yield earned on an investment, expressed as a percentage.

Liquidity - Refers to the ability to rapidly convert an investment into cash with minimal risk of losing some portion of principal and/or interest.

Master Repurchase Agreement - A written contract covering all future transactions between the parties to repurchase and/or reverse repurchase agreements that establish each party's rights. A master agreement will 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 date upon which an investment's principal or stated value becomes due and payable.

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

Municipal Securities of Local Agencies – Debt securities issued by states, cities, counties, and other governmental entities to fund day-to-day obligations and finance capital projects. The purchase of municipal securities is a loan to the bond issuer in exchange for regular interest payments and the return of the original investment.

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

Rate of Return - The yield obtainable on a security based on its purchase or current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (RP or REPO) - A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. In effect, the security "buyer" lends the "seller" money for the agreement period, and the agreement terms are structured to compensate him for this. Dealers use RPs extensively to finance their positions. Exception: When the Fed is said to be doing RPs, it is lending money, that is, increasing bank reserves.

Reverse Repurchase Agreement (Reverse REPO) - A transaction where the seller (City) agrees to buy back from the buyer (bank) the securities at an agreed-upon price after a stated period.

Risk - Degree of uncertainty of return on an asset.

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

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

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

Yield - The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the security's current market price.

Yield to Maturity - The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

(Place on letterhead, sign, and return to City)

Investment Firm Certification Form

As an authorized representative of the undersigned firm, I certify that our firm has received a copy of the City of Elk Grove's Investment Policy, has read it, and will work within the policy's guidelines when conducting business with and providing services to the City.

All employees of the firm dealing with the City of Elk Grove have been and will be routinely informed of the City's investment objectives, policies, risk constraints, and other pertinent factors.

______________________________	______________________________
Name of Authorized Representative	Title
______________________________	______________________________
Signature	Date