

# Treasury Manager Selection & Draft Investment Policy Review

Finance, Administrative, &  
Procurement Subcommittee

March 13, 2024



# Recommendations & Objectives

- Approve the selection for Treasury Manager to go to the Board for a vote at the March 20<sup>th</sup> meeting
- Provide guidance, feedback, or approval for the Draft Investment Policy to go to the Board for a vote at the March 20<sup>th</sup> meeting



# Background & Discussion

- In November 2023, the Board of Directors approved the allocation of an additional \$75 million to the reserve funds, bringing the balance to approximately \$231 million.
- Ava is expecting an additional \$100 million contribution at the end of this fiscal year.
- Currently, reserves are held in vehicles with limited rates of return and management options.

Account Type	Balance	Capacity	Rate
ICS Checking	133,521,000	155,000,000	LAIF + 5bps
ICS Savings	20,365,000	100,000,000	LAIF + 5bps
ICS Limit		225,000,000	
CDARS	50,000,000	50,000,000	Treasury + 10bps
Money Market	27,114,000	105,200,000	LAIF + 5bps
Total	231,000,000	380,200,000	

Insured Cash Sweep totals must be less than 50% of total account balances

ICS Limit is \$30MM less than sum of capacity

Certificate of Deposit Account Registry Service

Money Market must be less than 20% of total account balances

LAIF rates Dec 2023 = 4.00%

1Mo Treasury rates Dec 2023 = 5.60%



# Treasury Manager RFP

- In October 2023, Ava issued a request for proposals for qualified treasury managers to assist with the management of reserve funds.
- In November, four firms submitted responses: Chandler Asset Managers, PFM Asset Managers (PFMAM), PNC Financial Services, Raymond James.
- All proposals were reviewed and the top two scoring responders were interviewed in person.
- Evaluations were based upon the following groups of criteria:
  - Experience & Qualifications
  - Compliance & Controls
  - Approach to Treasury Management
  - Cost/Pricing
  - Client Services & Reporting
  - References
  - Additional/Supporting Filings/Documentation
- PFMAM scored the highest in both the review and the interview.



# PFM Asset Management, LLC

- PFMAM is an investment adviser and fiduciary registered with the U.S. Securities and Exchange Commission and a subsidiary of U. S. Bancorp Asset Management.
- PFMAM has 43 years of specializing in California public agency investment management
  - \$214.9 billion in assets under management for over 180 government clients
  - \$565.4 million for 7 public energy agencies and CCAs, including Peninsula Clean Energy and Silicon Valley Clean Energy
  - Advisors for multiple Ava constituents, including City of Albany, City of Fremont, and City of Hayward
  - Original sponsor of CalCCA
- Lead advisor, Monique Spyke, has been with PFMAM over 20 years
  - Supporting staff of six has over 100 years of combined experience



# PFM Asset Management, LLC, Cont...

- All investments are reviewed by committee prior to execution and overseen by PFMAM's CIO
- All investment mandates are monitored weekly and compliance checks are done daily
- Additional advantages to PFMAM
  - Advocates for a “culture of compliance” with automated protocols, pre and post-trade reviews, and reporting transparency
  - Works primarily with US Bank, but has working relationships with about 20 custodians
  - Committed to Socially Responsible Investing (SRI) on behalf of municipal clients and can leverage full ESG management
  - Offers full reporting and client services suite, including presenting to Board on a quarterly basis
  - Fully compliant with all SEC regulations, filings, and protocols since inception
- Very competitive bid



# Treasury Manager Operations

- The scope of work for the Treasury Manager will include but not be limited to:
  - Work with Staff to develop a comprehensive and inclusive investment policy
  - Continuous assessment of investments with regards to Federal and State regulations and Ava approved investment policy
  - Assess market risk of investments and provide regular reporting for Staff and Board
- Treasury Manager will not have direct access to accounts, but will track, report, and advise on investment balances, transactions, returns, and benchmarks
- US Bank will be the custodian
- Ava currently holds a \$200 million credit facility with US Bank
- Estimated cost of services is ~\$151,000 per year at current reserve amounts
  - Cost would increase by \$35,000 per year per \$100 million of additional reserves



# Investment Policy

- PFMAM has provided a standard investment policy for initial review
- The objectives of the policy are in priority order as:
  - Safety: Preservation of capital in overall portfolio
  - Liquidity: Sufficiently liquid to meet all reasonably anticipated operating requirements
  - Return on Investment: Attain a market rate of return
- Staff has added a section on Socially Responsible Investing prohibiting Ava from investing in companies whose primary business involves one or more of the activities listed here:
  - Fossil fuel extraction, refining, and distribution
  - Tobacco manufacturing and production
  - Firearms manufacturing
- All authorized investments are compliant with Federal and State policies and guidelines for government entities





# Thank you!



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## **AVA COMMUNITY ENERGY INVESTMENT POLICY**

### **Policy**

The purpose of this investment policy ("Policy") is to identify prudent policies and procedures that shall govern the investment of Ava Community Energy's ("Ava") funds. The ultimate goal of this Policy is to protect the safety of the invested funds, enhance the economic status of Ava, and to ensure that all investments comply with federal, state, and local laws governing the investment of the funds covered by this Policy.

### **Scope**

This Policy shall cover all funds and investment activities under the direct authority of Ava.

Bond proceeds shall be invested in the securities permitted by the applicable bond documents. If the bond documents are silent as to the permitted investments, the bond proceeds will be invested in the securities permitted by this Policy. Notwithstanding the other provisions of this Policy, the percentage limitations listed in elsewhere in this Policy do not apply to bond proceeds.

### **Objectives**

The primary objectives, in priority order, for Ava's investment activities shall be:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Ava's investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. **Liquidity:** Ava's investment portfolio will remain sufficiently liquid to enable Ava to meet all operating requirements, which might be reasonably anticipated.
3. **Return on Investment:** Ava's investment portfolio shall be managed with the objective of attaining a market rate of return throughout budgetary and economic cycles.

The remainder of this Policy describes the policies and procedures to be followed in support of these objectives.

### **Prudence**

All persons authorized to make investment decisions on behalf of Ava 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, 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.

Authorized persons, acting in accordance with written procedures and this Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

**Delegation of Authority**

Responsibility for the investment program is hereby delegated by Ava's Board of Directors to the Treasurer, for a period of one-year, who shall thereafter assume full responsibility for the investment program until the delegation of authority is revoked. Subject to review, the Board of Directors may renew the delegation of authority each year. The Treasurer may delegate the day-to-day investment activities to his/her designee(s) but not the responsibility for the overall investment program. If authorized by the Board of Directors, the Treasurer may also utilize the services of an external investment advisor to assist with the investment program. The investment advisor shall never take possession of Ava's funds or assets. No person may engage in investment activities except as provided under the terms of this Policy and the procedures established by the Treasurer.

**Ethics and Conflicts of Interest**

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

**Internal Controls**

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of Ava are protected from loss, theft or misuse. The procedures should include references to individuals authorized to execute transactions or transfers, safekeeping agreements, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. The internal control structure shall be designed to provide reasonable assurance that 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 judgement by management. Compliance with this Policy and internal controls shall be reviewed annually by Ava's independent auditor.

**Authorized Financial Dealers and Institutions**

Investments not purchased directly from the issuer, shall be purchased either from an institution licensed by the state as a broker-dealer or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank. If Ava is utilizing financial dealers or institutions to execute transactions, the Treasurer shall maintain a list of the firms that have been approved for investment purposes. A copy of this Policy shall be sent annually to all firms with which Ava executes investments.

If Ava has contracted with an investment advisor to provide investment services, the investment advisor may use their own list of approved issuers, brokers/dealers and financial institutions with which to conduct transactions on Ava's behalf.

**Authorized and Suitable Investments**

The California Government Code provides basic investment limits and guidelines for government entities. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters will take precedence. Percentage holding limits listed in this Policy apply at the time the security is purchased. A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment. Credit ratings, where shown, specify the minimum credit rating category required at purchased. In the event a security held by Ava is

subject to a credit rating change that brings it below the minimum credit ratings specified in this Policy, the Treasurer should notify the Board of Directors of the change in the next quarterly investment report. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rate drops, and the market price of the security.

- A. **U.S. Treasury Instruments.** United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of Ava's moneys that may be invested in this category.
- B. **Federal Agency Securities.** 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. There is no limitation as to the percentage of Ava's moneys that may be invested in this category.
- C. **Supranational Obligations.** 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 paragraph shall be rated in a rating category of "AA" or its equivalent or better by a Nationally Recognized Statistical Rating Organization ("NRSRO"). No more than 30% of Ava's moneys may be invested in this category.
- D. **Municipal Debt.** Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

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 the other 49 states, in addition to California.

Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, 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.

There is no limitation as to the percentage of Ava's moneys that may be invested in this category.

- E. **Medium-Term Notes.** Medium-term notes, defined as 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. Notes eligible for investment under this paragraph shall be rated in a rating category of "A" or its equivalent or better by an NRSRO. No more than 30% of Ava's moneys may be invested in this category. No more than 10% of Ava's moneys may be in the commercial paper and the medium-term notes of any single issuer.

- F. **Negotiable CDs.** Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. No more than 30% of Ava's moneys may be invested in this category.
- G. **Placement Service Deposits.** Bank deposits placed with a private sector entity that assists in the placement of deposits with eligible financial institutions located in the United States. The full amount of the principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. Placement Deposits shall meet all of the requirements of Government Code Section 53601.8. Purchases of Placement Service CDs may not exceed 30% of Ava's moneys that may be invested in this category.
- H. **Asset-Backed Securities.** 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. For securities eligible for investment under this paragraph not issued or guaranteed by an agency or issuer identified in paragraph (A) or (B) of this Policy section, the following limitations apply: (1) the security shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. (2) A maximum of 20% of Ava's moneys may be invested in this category.
- I. **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 (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (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), and (C) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or better by an NRSRO.
  - (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, overcollateralization, letters of credit, or a surety bond, and (C) Has commercial paper that is rated "A-1" or better, or the equivalent, by an NRSRO.
- Purchases are limited to securities that have a maximum maturity of 270 days. A maximum of 40% of Ava's moneys may be in this paragraph (*the limit is 25% for agencies that have less than \$100 million of investment assets*). No more than 10% of Ava's moneys may be in the commercial paper and the medium-term notes of any single issuer.
- J. **State of California's Local Agency Investment Fund (LAIF).** Whenever Ava has funds invested in LAIF, the Treasurer shall periodically review the program's investments. The maximum amount invested in this category may not exceed the limit set by LAIF for operating accounts.
- K. **Local Government Investment Pools ("LGIP").** Shares of beneficial interest issued by a joint powers authority organized pursuant to California Government Code Section 6509.7 that invests in the securities and obligations authorized in California Government Code Section 53601

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 United States 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).

There is no limitation as to the percentage of Ava's moneys that may be invested in this category.

- L. **Money Market Funds ("MMF").** Shares of beneficial interest issued by diversified management companies that are money market funds registered with the United States Securities and Exchange Commission under the Investment Company Act of 1940. These Money Market Funds must have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs, or (B) Retained an investment advisor with not less than five years' experience and registered or exempt from registration with the SEC, with assets under management in excess of five hundred million dollars (\$500,000,000). Whenever Ava has any funds invested in a MMF, the Treasurer shall review and file the MMF's information statement at least annually. A maximum of 20% of Ava's moneys may be invested in this category.
  
- M. **Bank Deposits.** FDIC insured or fully collateralized demand deposit accounts, savings accounts, market rate accounts, time certificates of deposits ("TCDs") and other types of bank deposits in financial institutions located in California. The amount on deposit in any financial institution shall not exceed the shareholder's equity. To be eligible to receive Ava's deposits, the financial institution must have received a minimum overall satisfactory rating, under the Community Redevelopment Act, for meeting the credit needs of California Communities in its most recent evaluation. Bank deposits are required to be collateralized as specified under Government Code Section 53630 et seq. The Treasurer, at his/her discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance. Ava shall have a signed agreement with any depository accepting Ava's funds per Government Code Section 53649. The maturity of TCDs may not exceed 1 year in maturity. There is no limit on the percentage of the portfolio that may be invested in bank deposits. However, a maximum of 20% percent of Ava's moneys may be invested in TCDs.

### **Ineligible Investments**

Ava shall not invest in any investment authorized by the Government Code, but not explicitly listed in this Policy without the prior approval of the Board of Directors. For the avoidance of doubt this includes—but is not limited to—repurchase agreements, reverse repurchase agreements, bankers' acceptances, and public bank debt as defined by 53601(r). Furthermore, Ava will not invest in inverse floaters, range notes, mortgage-derived, interest-only strips, or any security that could result in zero interest accrual if held to maturity, except as authorized by Government Code Section 53601.6. Ava may hold any previously permitted but currently prohibited investments until their maturity dates.

### **Socially Responsible Investing**

Ava's portfolio shall not include investment in companies in the industries or subindustries listed below. Where industry/subindustry classifications are not applicable, Ava shall avoid investing in companies

whose primary business involves one or more of the business activities detailed below. Ava's External Investment Manager shall provide Ava information on their screening process.

- Fossil Fuel Extraction, Refining, and Distribution
- Tobacco Manufacturing and Production
- Firearms Manufacturing

### **Diversification**

Ava shall diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

### **Maximum Maturities**

The Treasurer and/or his/her designee(s) shall maintain a system to monitor and forecast revenues and expenditures so that Ava funds can be invested to the fullest extent possible while providing sufficient liquidity to meet Ava's reasonably anticipated cash flow requirements. Maturities of investments will be selected to provide necessary liquidity, manage interest rate risk, and optimize earnings. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds.

For those investment types for which this Policy does not specify a maturity limit, no individual investment shall exceed a maturity of five years, as measured from the settlement date to final maturity, unless the Board of Directors has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board of Directors no less than three months prior to the investment.

This Policy authorizes investing bond project and reserve funds beyond five years if the maturities of such investments do not exceed the expected use of the funds, the investments are deemed prudent in the opinion of the Treasurer, and the investments are not prohibited by the applicable bond documents.

### **Safekeeping and Custody**

To protect against potential losses by collapse of individual securities dealers, all deliverable securities owned by Ava, including collateral on repurchase agreements, shall be held in safekeeping by a third party bank trust department acting as agent for Ava under the terms of a custody agreement executed by the bank and by Ava. All deliverable securities will be received and delivered using standard delivery-versus-payment procedures.

### **Performance Standards**

The investment portfolio shall be managed 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. This Policy recognizes that in a diversified portfolio occasional measured losses are inevitable and must be considered within the context of the overall portfolio's structure and expected investment return, with the proviso that adequate diversification and credit analysis have been implemented.

An appropriate performance benchmark shall be established against which portfolio performance shall be compared on a regular basis. The selected performance benchmark shall be representative of Ava's overall investment objectives and liquidity requirements.

**Reporting**

The Treasurer will prepare an investment report on a monthly basis that shall include a description of the portfolio, type of investments, issuers, maturity dates, par values and current market values of each component of the portfolio, list of transactions, including funds managed for Ava by third party contract managers. The report will include a certification that: (1) all investment actions executed since the last report have been made in full compliance with this Policy and (2) the report shall include a statement denoting the ability of Ava to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available. The report shall be so submitted within 45 days following the end of the month covered by the report.

**Investment Policy Adoption**

Ava's investment policy shall be adopted by resolution of the Board of Directors. This Policy shall be reviewed periodically by the Treasurer and any modifications made thereto must be approved by the Board of Directors.



## GLOSSARY

The glossary is provided for general information only. It is not to be considered a part of the Policy for determining Policy requirements or terms.

**AGENCIES:** Securities issued by federal agency securities and/or Government-sponsored enterprises (e.g. FNMA, FHLMC, FHLB).

**AMORTIZED COST (or Book Value):** For investments purchased at a discount, amortized cost constitutes cost plus interest earned to date.

**ASKED:** The price at which securities are offered for sale; also known as offering price.

**ASSET-BACKED SECURITIES (ABS):** 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.

**BASIS POINT:** One hundredth of one percent (i.e. 0.01 percent).

**BENCHMARK:** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

**BID:** The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

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

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

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a Certificate. Large denomination CD's are typically negotiable.

**COMMERCIAL PAPER:** An unsecured promissory note with a fixed maturity no longer than 270 days.

**COLLATERAL:** Securities, evidence of deposit or other property, which secures repayment of an investment. Also refers to securities pledged by a bank to secure deposits of public monies.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The official annual report of the (entity). 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 Section.

**COUPON:** (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

(b) A certificate attached to a bond evidencing interest due on a payment date.

**CREDIT RISK:** The risk to an investor that an issuer will default in the payment of interest and/or principal on a security and a loss will result.

**CUSTODIAN:** A bank or other financial institution that keeps custody of stock certificates and other assets.

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

**DEBENTURE:** A bond secured only by the general credit of the issuer.

**DELIVERY VERSUS PAYMENT:** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

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

**DISCOUNT:** The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value (e.g., U.S. Treasury Bills, commercial paper.)

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns.

**DURATION:** A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. Duration is expressed as a number of years. The duration of a security is a useful indicator of its price volatility for given changes in interest rates. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits.

**FEDERAL FARM CREDIT BANK (FFCB):** Government-sponsored institution that consolidates the financing activities of the Federal Land Banks, the Federal Intermediate Credit Banks and the Banks for Cooperatives. Its securities do not carry direct U.S. Government guarantees.

**FEDERAL FUNDS RATE:** The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**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 HOME LOAN MORTGAGE CORPORATION (FHLMC or Freddie Mac):**  
Established in 1970 to help maintain the availability of mortgage credit for residential housing. FHLMC finances these operations by marketing guaranteed mortgage certificates and mortgage participation certificates. FHLMC's securities are highly liquid and are widely accepted. FHLMC is currently operated under conservatorship of the U.S. Government.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae):**  
FNMA 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. 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 is currently operated under conservatorship of the U.S. Government.

**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 U.S. which consists of seven member Board of Governors, 12 regional banks, and about 5,700 commercial banks that are members.

**FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA):** The Financial Industry Regulatory Authority (FINRA) is the largest independent regulator for all securities firms doing business in the United States. All told, FINRA oversees nearly 4,750 brokerage firms, about 167,000 branch offices and approximately 634,000 registered securities representatives.

**INTEREST RATE RISK:** The risk of gain or loss in market values of securities due to changes in interest-rate levels. For example, rising interest rates will cause the market value of portfolio securities to decline.

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

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

**LOCAL AGENCY INVESTMENT FUND (LAIF):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment purposes.

**LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** A type of pooled investment program in which funds from local agency investors/participants are aggregated together for investment purposes.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

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

**MEDIUM-TERM NOTES (MTNs):** Unsecured corporate obligations. For purposes of the California Government Code, they have a maximum remaining maturity of five years or less.

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

**MONEY MARKET FUND.** A type of mutual fund that invests exclusively in short-term investments.

**MORTGAGE-BACKED SECURITIES (MBS):** These securities represent an ownership interest in mortgage loans made by financial institutions (savings and loans, commercial banks, or mortgage companies) to finance the borrower's purchase of a home or other real estate. MBS are created when these loans are packaged, or "pooled," by issuers or servicers for sale to investors. As the underlying mortgage loans are paid off by the homeowners, the investors receive payments of interest and principal.

**MUTUAL FUND:** A fund operated by an investment company that raises money from shareholders and invests it on their behalf. Profits are distributed to shareholders after the investment company deducts its management fee. Mutual funds are regulated by the SEC.

**NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO):** A credit rating agency that issue credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. The largest three NRSROs are Standard & Poor's, Moody's Investors Service and Fitch Ratings.

**NEGOTIABLE:** Something that can be sold or transferred to another party.

**NEGOTIABLE CERTIFICATES OF DEPOSIT:** Large denomination certificates of deposit with a fixed maturity date, which can be sold in the money market. They are not collateralized.

**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.

**PAR VALUE:** The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in increments of \$1,000 per bond.

**PORTFOLIO:** Collection of securities held by an investor.

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

**PREMIUM:** The amount by which a security sells above its par value.

**PRINCIPAL:** The face or par value of a debt instrument or the amount of capital invested in a given security.

**PRUDENT INVESTORS RULE:** An investment standard. In California, persons authorized to make investment decisions on behalf of a local agency are considered trustees and therefore fiduciaries subject to the Prudent Investor Rule. A trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

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

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

**SAFEKEEPING:** A service banks offer to clients for a fee, where physical securities are held in the bank's vault for protection and book-entry securities are on record with the Federal Reserve Bank or Depository Trust Company in the bank's name for the benefit of the client. As agent for the client, the safekeeping bank settles securities transactions, collects coupon payments, and redeems securities at maturity or, if called, on the call date.

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

**SECURITIES:** Investment instruments such as notes, bonds, stocks, money market instruments and other instruments of indebtedness of equity.

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

**SPREAD:** The difference between two figures or percentages. It may be the difference between the bid (price at which a prospective buyer offers to pay) and asked (price at which an owner offers to sell) prices of a quote, or between the amount paid when bought and the amount received when sold.

**SUPRANATIONAL:** Supranational entities are formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds. Examples of supranational institutions include the European Investment Bank and the World Bank. Similarly to the government bonds, the bonds issued by these institutions are considered direct obligations of the issuing nations and have a high credit rating.

**TREASURY SECURITIES.** Obligations issued by the federal government, which are backed by the U.S. Government's full faith & credit. Generally considered to have the lowest credit risk of any security. They are issued in a range of maturities:

- **TREASURY BILLS.** Are short-term, non-interest bearing discount security having initial maturities of one-year or less.
- **TREASURY NOTES.** Are Intermediate-term coupon-bearing securities having initial maturities from two to ten years.
- **TREASURY BONDS.** Are long-term coupon-bearing securities having initial maturities of more than ten years.

**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.

**WEIGHTED AVERAGE MATURITY (OR DURATION):** The sum of the amount of each investment multiplied by the number of days to maturity (or duration), divided by the total amount of investments.

**YIELD:** The annual rate of return on an investment expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security.

**YIELD CURVE:** Yield calculations of various maturities of instruments of the same quality at a given time to show yield relationships.