



CALIFORNIA MUNICIPAL TREASURERS ASSOCIATION CERTIFIED INVESTMENT POLICY



Certification Date:

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Chief Financial Officer

Steve Groom, CCMT





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Policy

6110 This policy is intended to provide guidelines for the prudent investment of funds of the Beach Cities Health District (referred to throughout as ‘the District’) and to outline the policies for maximizing the efficiency of the District’s cash management. The ultimate goal is to enhance the economic status of the District consistent with the prudent protection of the District’s investments. This investment policy has been prepared in conformance with all pertinent existing laws of the State of California including California Government Code Sections 53600, *et seq.*

Scope

6110.1 It is intended that this policy cover all funds and investment activities of the District except for the proceeds of certain capital project finance programs, which are invested in accordance with provisions of their specific bond indentures. These funds are defined and accounted for in the District’s audited annual Basic Financial Statements Report and includes any new funds created unless specifically excluded by District management and the Board of Directors. This policy does not include retirement or deferred compensation plans. Investments for the District will be made on a pooled basis including the General Fund, Special Revenue Fund and any funds subsequently created.

Prudent Investor Standard

6110.2 The District operates its investment portfolio under the Prudent Investor Standard (California Government Code Section 53600.3) 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 need of the District, that a prudent person 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 District”.

6110.3 This standard shall be applied in the context of managing the overall portfolio. Investment officers, acting in accordance with written procedures and this investment policy and exercising the above standard of 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.

Investment Objectives

6110.4 When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing the District's funds,

6110.4.1 The primary objective is to safeguard the principal of the funds.

6110.4.2 The secondary objective is to meet the liquidity needs of the District.

6110.4.3 The third objective is to achieve a maximum return on invested funds.

6110.5 It is the policy of the District to invest public funds in a manner to obtain the highest yield obtainable with the maximum security while meeting the daily cash flow demands of the District as long as investments meet the criteria established by this policy for safety and liquidity and conform to all laws governing the investment of District funds.

6110.5.1 Safety of Principal.

Safety of principal is the foremost objective of the District. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they arise from securities defaults, institution default, broker-dealer default, or erosion of market value of securities. The District shall mitigate the risk to the principal of invested funds by limiting credit and interest rate risks. Credit Risk is the risk of loss due to the failure of a security's issuer or backer. Interest Rate Risk is the risk that the market value of the District's portfolio will fall due to an increase in general interest rates.

6110.5.1.1 Credit risk will be mitigated by:

6110.5.1.1.1 Limiting investments to only the most creditworthy types of securities;

6110.5.1.1.2 By pre-qualifying the financial institutions with which the District will do business; and

6110.5.1.1.3 By diversifying the investment portfolio so that the potential failure of any one issue or issuer will not place an undue financial burden on the District.

6110.5.1.2 Interest rate risk will be mitigated by:

6110.5.1.2.1 Structuring the District's portfolio so that securities mature to meet the District's cash requirements for ongoing obligations, thereby reducing the possible need to sell securities on the open market at a loss prior to their maturity to meet those requirements; and

6110.5.1.2.2 Investing primarily in shorter-term securities.

6110.5.2 Liquidity

Availability of sufficient cash to pay for current expenditures shall be maintained in money market funds, local government investment pools that offer daily liquidity, repurchase agreements, or short-term securities that can easily be converted into cash because they have secondary markets. The cash management system of the District shall be designed to accurately monitor and forecast expenditures and revenues to ensure the investment of monies to the fullest extent possible.

6110.5.3 Rates of Return

Yield on investments shall be considered only after the basic requirements of safety and liquidity have been met. The investment portfolio shall be designed to attain a market average rate of return throughout economic cycles, taking into account the District's risk constraints, the composition and cash flow characteristics of the portfolio, and applicable laws.

Delegation of Authority

6110.6 Authority to manage District's investment program is derived from the California Government Code Sections 41001 – 41007 and 53600 - 53900. The Board of Directors hereby delegates management responsibility for implementing the investment program to the Chief Executive Officer, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall authorize the CEO and/or the Finance Director to execute investment transactions or delegate day-to-day investment decision making and execution authority to an investment advisor. The rights and responsibilities delegated to an investment advisor must be in a written agreement. The investment advisor shall make all investment decision and transactions in strict accordance with state law and District policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Chief Executive Officer and approved by the Board of Directors. The Board of Directors shall be responsible for all transactions undertaken by the District's management staff, and shall establish a system of controls to regulate the activities of internal staff and any external investment advisors.

Ethics and Conflicts of Interest

6110.7 Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose any material financial interest in financial institutions that conduct business with this District, and they shall further disclose any large personal financial / investment positions that could be related to the performance of the District's portfolio. Employees and officers shall subordinate their personal investment preferences to those of the District, particularly with regard to the timing of transactions, and shall avoid transactions that might impair public confidence.

Authorized Financial Dealers and Institutions

6110.8 The Finance Director will establish and maintain a list of the financial institutions and broker/dealers authorized to provide investment and depository services to the District, will perform an annual review of the financial condition and registrations of the qualified institutions, and require annual audited financial statements to be on file for each approved institution. The District shall annually send a copy of their current Investment Policy to all financial institutions and broker/dealers approved to do business with the District. Receipt of the Investment Policy including confirmation that it has been received and reviewed by the person(s) handling the District's account, shall be acknowledged in writing within thirty (30) days.

6110.8.1 Depositories

In selecting depositories, the creditworthiness of institutions shall be considered and the Finance Director shall conduct a comprehensive review of prospective depositories' credit characteristics and financial history. Qualifications and minimum requirements for depositories will be established by the Finance Director, approved by the Board of Directors and provided to any institution seeking to conduct business with the District. Banks and Savings and Loan Associations seeking to establish eligibility as a depository for the District's Collateralized Certificate of Deposits shall annually submit an audited financial statement which will be reviewed by the Finance Director for compliance with the District's financial criteria.

6110.8.1.1 Any institution meeting the District's required criteria will be eligible for placement of public deposits by the District, subject to approval by the Chief Executive Officer. Un-audited quarterly financial data shall be reviewed for all institutions on the District's approved list. Any institution falling below the District's established minimum criteria shall be removed from the approved list, no new deposits may be placed with that institution and all funds remaining shall be withdrawn as the deposits mature.

6110.8.2 Brokers and Dealers

All brokers and dealers that desire to become qualified bidders for investment transactions with the District must respond to our "Broker Dealer Questionnaire" and submit related documents relative to eligibility. This includes a current audited financial statement, proof of state registration, proof of NASD registration and a certification they have received and reviewed the District's Investment Policy and agree to comply with the provisions outlined in the Investment Policy. The Finance Director may establish any additional criteria deemed appropriate to evaluate and approve any financial services provider. The selection process for broker-dealers shall be open to both "primary dealers" and "secondary/regional dealers" that qualify under Securities and Exchange Commission Rule 15c3-1 (Uniform Net Capital Rule), and the provider's representative must be



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experienced in institutional trading practices and familiar with the California Government Code as it relates to investments by a public entity.

If a third party investment advisor is authorized to conduct investment transactions on the District's behalf, the investment advisor may use their own list of approved broker/dealers and financial institutions. The investment advisor's approved list must be made available to the District upon request.

Authorized and Suitable Investments

6110.9 The District is provided a broad spectrum of eligible investments under California Government Code Section 53600 et seq. The District may choose to restrict its permitted investments to a smaller list of securities that more closely fits the District's cash flow needs and requirements for liquidity. If a type of investment is added to California State Code 53600, it will not be added to the District's Authorized Investment List until this policy is amended and approved by the Chief Executive Officer and the Board of Directors. If a type of investment permitted by the District should be removed from California State Code 53600, it will be deemed concurrently removed from the District's Authorized Investment List, but existing holdings may be held until they mature if it is in the best interest of the District and recommended by the Finance Director and approved by the Board of Directors.

Credit criteria listed in this Policy refers to the credit rating of the issuing organization at the time the security is purchased. The District may from time to time be invested in a security whose rating is downgraded. In the event a rating drops below the minimum allowed by this Policy, the CFO will review recommend an appropriate plan of action to the CEO and Board no less frequently than quarterly. If the District has an Investment Advisor, the Investment Advisor will notify the CFO and recommend a plan of action. Percentage limits refer to the percentage at the time the security is purchased.

6110.9.1 Within the context of these limitations, the following investments are authorized:

PERMITTED INVESTMENTS/ DEPOSITS	BCHD % of TOTAL LIMITS / MATURITY LIMITS	State 53600- % of TOTAL LIMITS / MATURITY LIMITS
Government Investment Pools <ul style="list-style-type: none"> LAIF (Local Agency Investment Fund) California State Treasurer's Office CALTrust (Investment Trust of California JPA) 	<ul style="list-style-type: none"> Maximum permitted by State Treasurer, no maturity limit Maximum permitted by 53601, no maturity limit 	<ul style="list-style-type: none"> No maturity limit, \$40 million max permitted by State Treasurer No maturity limit, no \$ max
Securities of the U.S. Government including U.S. Government Agencies and Instrumentalities **	Unlimited % of total portfolio, 5 years	No % limit, 5 years
Registered State Warrants or Treasury Notes or Bonds of the State of California **	No % limit 5 years	No % limit, 5 Years
Bonds, notes, warrants, or other evidences of indebtedness of any local Agency within the State of California **	No % limit 5 years	No % limit, 5 Years
Bankers Acceptances **	20%, 5% per issuer, 180 days	40% max, 30% per issuer 180 days
Commercial Paper **	25%, 5% per issuer, 180 Days	25% max, 10% per issuer, 270 days
Negotiable Certificates of Deposit **	30%, 5% per issuer, 1 Year	30 %, 5 Year
Time Certificates of Deposit **	50%, 2 Years	No % limit, 5 years
Repurchase Agreements	20%, 90 days, only with Master Repurchase Agreement**	No % limit, 1 year, only with Master Agreement
Medium Term Notes **	30%, 5 Years, "A" or higher, 5% max per issuer A or AA	30 % max, 5 years, "A or higher
Mutual Funds **	20%, no maturity limit	20% max, 10% per issuer
Money Market / Passbook Savings / Demand Deposits **	20 percent, no maturity limit	20 %, no maturity limit

One of the purposes of this Investment Policy is to define what investments are permitted. If a type of security is not specifically authorized by this policy, it is not a permitted investment.

****Please see Appendix A for a more detailed description of the authorized investments listed above and additional restrictions.**

Master Repurchase Agreement

6110.10 The District may invest (Government Code Section 53601(i)) in overnight and term repurchase agreements with Primary Dealers of the Federal Reserve Bank of New York rated "A" or better by Moody's Investors Service or Standard & Poor's Corporation with which the District has entered into a Master Repurchase Agreement. This agreement will be modeled after the Public Securities Associations Master Repurchase Agreement.

6110.11 All collateral used to secure this type of transaction is to be delivered to a third party prior to release of funds. The third party will have an account in the name of the Beach Cities Health District. The market value of securities used as collateral for repurchase agreements shall be monitored on a daily basis and will not be permitted to fall below a minimum of 102 percent of the value of the repurchase agreement. Collateral shall not have maturities in excess of five years. The right of substitution will be granted, provided that permissible collateral is maintained.

6110.12 In order to conform with provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct obligations of and guaranteed by the U.S. Government and Agency securities as permitted under this policy. The District will maintain a first perfected security interest in the securities subject to the repurchase agreement and shall have a contractual right to liquidation of purchased securities upon the bankruptcy, insolvency or other default of the counter party.

Investment Pools

6110.13 A thorough investigation of any investment pool, money market or mutual fund is required prior to investing and on a continual basis. The investigation will, at a minimum, obtain the following information:

6110.13.1 A description of interest calculations and how it is distributed, and how gains and losses are distributed.

6110.13.2 A description of how securities are safeguarded (including the settlement process) and how often the securities are marked to market and how often an audit is conducted.

6110.13.3 A description of who may invest in the program, how often, what size deposits and withdrawals are permitted.

6110.13.4 A schedule for receiving statements and portfolio listings.

6110.13.5 Does the pool/fund maintain a reserve or retain earnings or is all income after expenses distributed to participants?

6110.13.6 A fee schedule that discloses when and how fees are assessed.

6110.13.7 Determining if the pool or fund is eligible for bond proceeds and/or will it accept such proceeds.

6110.14 The purpose of this investigation is to determine the suitability of a pool or fund and evaluate the risk of placing funds with that pool or fund.

Collateralization

6110.15 Uninsured Time Deposits with banks and savings and loans shall be collateralized and monitored in the manner prescribed by state law for depositories accepting investment funds from public governmental entities.

6110.16 Repurchase Agreements shall be collateralized in accordance with terms specified in the Master Repurchase Agreement. The valuation of collateral securing a Repurchase Agreement will be verified and monitored on a daily basis to ensure a minimum of 102% of the value of the transaction being held by the District's depository agent. All collateral used to secure this type of transaction is to be delivered to a third party prior to release of funds. The third party will have an account in the name of the Beach Cities Health District.

Safekeeping and Custody

6110.17 All securities owned by the District shall be held in safekeeping by a third party bank trust department acting as agent for the District under the terms of a custody agreement executed by the bank and the District. **All securities will be received and delivered using standard delivery versus payment (DVP) procedures.** The third party bank trustee agreement must comply with Section 53608 of the California Government Code. No outside broker/dealer or advisor may have access to District funds, accounts or investments and any transfer of funds must be approved by the Chief Executive Officer or their designee.

Diversification and Risk

6110.18 The District recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. To minimize the District's exposure to these types of risk, the portfolio should be diversified among several types of institutions, instruments and maturities. The Finance Director shall minimize default risk by prudently selecting only instruments and institutions, which at the time of placement have been evaluated for their financial viability and compliance with this policy. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio. Risk shall also be managed by subscribing to a portfolio management philosophy that helps to control market and interest rate risk by matching investments with cash flow requirements. In the event of a default by a specific issuer, the Finance Director shall evaluate the liquidation of securities having comparable credit risks. Diversification strategies shall be established and reviewed quarterly by the Chief Executive Officer.

Maximum Maturities

6110.19 Every effort will be made to match investment maturities to cash flow needs. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, no more than 50% of the investment portfolio may be invested with maturities greater than 3 years. Unless matched to a specific requirement and approved by the Board of Directors, no investment may be made with a maturity greater than 5 years.

Internal Control and Review

6110.20 This Investment Policy shall be reviewed periodically by the Chief Executive Officer. Modifications or changes to this policy are to be recommended by the Finance Committee for approval by the Board of Directors. The Chief Executive Officer shall submit this Investment Policy annually to the Board of Directors for review and approval.

6110.21 The external auditors shall review annually the investments and general activities associated with the investment program to ensure compliance with this Investment Policy. This review will provide internal control by assuring compliance with policies and procedures established by this Investment Policy.

Performance Standards

6110.22 The investment portfolio will be managed in accordance with the standards established within this Investment Policy and should obtain a market rate of return throughout budgetary and economic cycles, taking into account the District's investment risk constraints, cash flow needs and maturities of the investments. The basis to determine whether market yields are being achieved shall be the total return of the portfolio. The Merrill Lynch 1-5 Year U.S. Corporate & Government, A-rated-and-above Index is the benchmark that compares with the portfolio composition, structure and current investment strategy and the Finance Director will periodically review the District's portfolio performance against the benchmark.

Reporting

6110.23 The Chief Executive Officer shall submit a quarterly investment report to the Board of Directors. The report shall be submitted within 30 days of the end of each calendar quarter (unless a more frequent reporting period is chosen) and shall include information about the investment of all funds in the custody of the District. This report shall include all items listed in Section 53646(b) of the Government Code.

6110.24 These reports will include the following information about the investment of all funds:

6110.24.1 A list of individual securities held at the end of the reporting period.



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6110.24.2 Unrealized gains or losses resulting from amortization or accretion of principal versus market value changes by listing the cost and market value of securities owned by the District.

6110.24.3 Dollar weighted yield to maturity of the District's investments.

6110.24.4 Maturity schedule by type, of each of the District's investments.

6110.24.5 Statement of compliance of the District's Investment Policy with California Government Code Section 53601 et seq.

6110.24.6 Statement as to ability to meet all scheduled expenditure requirements for the next six months.

6110.24.7 Market value, book value, par value and cost basis of all investments.

Appendix “A” Description of Authorized Investments and Restrictions

The following descriptions of authorized investments are included here to assist in the administration of this policy.

(a) Local Agency Investment Fund (LAIF)

The Local Agency Investment Fund (LAIF) is a special fund in the California State Treasury created and governed pursuant to Government Code Sections 16429.1 *et seq.* This law permits the District with the consent of the Board of Directors, to remit money not required for the District’s immediate need, to the State Treasurer for deposit in this special fund for the purpose of investment. LAIF currently limits investments to \$40 million from any one public agency. Principal may be withdrawn on one day’s notice. The fees charged by LAIF are limited by statute (Legal Authority – Government Code Section 16429.1)

(b) Securities of the U.S. Government including U.S. Government Agencies and Instrumentalities

These obligations can be classified either as “Treasuries” or “Agencies” (Legal Authority- Government Code Sections 53601(b) and 53635 (b)). Treasury securities are obligations of the United States Treasury backed by the “full faith and credit” of the Federal government and can be of three types bills, notes, and bonds. There is no percentage limitation of the portfolio that can be invested in this category, though a five-year maturity limitation is applicable.

The District can invest in obligations issued by the Federal Government agencies such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Corporation (FHLMC). Such securities are obligations of the agencies themselves, but there is also an implied guarantee by the United States Government. All such obligations qualify as legal instruments and are acceptable as security for District deposits. (Legal Authority – Government Code Sections 53601 (e) and 53635 (e)).

(c) Registered State warrants or Treasury Notes or Bonds of the State of California

These include 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. (Legal Authority – Government Code Sections 53601 (c) and 53635 (c)).

(d) Bonds, Notes, Warrants, or Other Evidences of Indebtedness of Any Local Agency within the State of California

These include bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by a California local agency, or

by a department, board, agency or authority of such a local agency. (Legal Authority-Government Code Sections 36301 (d) and 53635 (d)).

(e) Bankers Acceptances

The District may invest in Bankers Acceptances limited to banks rated a minimum of "A" by Moody's Investors Service and Standard & Poor's Corporation. The maximum investment maturity will be restricted to 270 days as per Government Code Section 53601(f). (Legal Authority-Government Code Sections 36301 (b) and 53635 (f)).

(f) Commercial Paper

Commercial Paper is issued by leading industrial and financial firms to raise working capital. The District shall only buy Commercial Paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investor Service, Inc. or Standard and Poor's Corporation (A1/P1 or higher). Eligible paper shall also be further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000) and having an "A" or higher rating for the issuer's debt, other than commercial paper, if any, as provided for by Moody's Investors Service, Inc., or Standard and Poor's Corporation.

(g) Negotiable Certificates of Deposit

Investments are limited to deposits issued by a nationally or state-chartered bank or a state or federal association or by a federally- or state-licensed branch of a foreign bank (Government Code Section 53601(h)) with a minimum rating of "AA" as assigned by Moody's Investors Service and Standard and Poor's Corporation. Negotiable Certificates of Deposit shall not exceed 30 percent of the District's surplus money which may be invested pursuant to this policy. As per section 53638 of the California Government Code, any deposit shall not exceed the total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution. Maximum investment maturity is restricted to one year. Investments in Negotiable Certificates of Deposit prohibited by Government Code Section 53635 (h) shall not be made. (Legal Authority – Government Code Section 53601 (h) and 53635 (h)).

(h) Time Certificates of Deposit

The District may invest in collateralized certificates of deposits issued by commercial banks and savings and loans (Government Code Sections 53601(h) and 53635(h)). A written depository contract is required with all institutions that hold District deposits. Securities placed in a collateral pool must provide coverage for at least 110 percent of all deposits that are placed in the institution. Acceptable pooled collateral is governed by California Government Code Section 53651. Real estate mortgages are not considered acceptable collateral by the District, even though they are permitted in Government Code Section 53651(m). All banks are required to provide the District with a regular statement of pooled collateral. This report will state that they are meeting the 110 percent collateral



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rule (Government Code Section 53652(a)), a listing of all collateral with location and market value, plus an accountability of the total amount of deposits secured by the pool.

No bank shall receive District funds that have a Moody's Investors Service rating or Standard and Poor's Corporation rating less than "A".

In the event that a bank does not meet the minimum ratings, a tri-party collateral arrangement may be substituted in lieu of a rating lower than "A". The third party institution must be acceptable to the District and have an account in the name of the Beach Cities Health District. The market value of the collateral in the account must not fall below 110 percent of the value of the deposit(s) at any time. The securities in the account must conform to Government Code Section 53651 with the exception that real estate mortgages are not acceptable collateral. The District will maintain a first perfected security interest in the securities pledged against the deposit and shall have a contractual right to liquidation of pledged securities upon the bankruptcy, insolvency or other default of the counter party.

Deposits of up to \$100,000 are allowable in any institution that insures its deposits with the Federal Deposit Insurance Corporation, regardless of Moody's Investors Service or Standard and Poor's Corporation ratings. As per section 53638 of the California Government Code, any deposit shall not exceed that total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution.

(i) Repurchase Agreements

A Repurchase Agreement is the purchase of a security pursuant to an agreement by which the counter party will deliver the underlying security by book entry, physical delivery or by a third party custodial agreement. Repurchase Agreements shall have a maximum maturity of one year and shall not exceed 50 percent of the District's surplus money. The collateralization level for Repurchase Agreements shall be a minimum of 102 percent of the market value of the principal and accrued interest. The right of substitution will be granted provided that permissible collateral is maintained. In order to conform to provisions of the Federal Bankruptcy Code, which provides for the liquidation of securities held as collateral for Repurchase Agreements, the only securities acceptable as collateral shall be securities that are direct obligations of and guaranteed by the United States Government or its Agencies with a maximum maturity of 5 years. The District shall maintain a first perfected security interest in the securities subject to the Repurchase Agreement and shall have a contractual right to liquidation of purchased securities upon the bankruptcy, insolvency or other default of the counter party. Repurchase Agreements may only be made with banks and primary dealers with which the District has entered into a Master Repurchase Agreement modeled after the Public Securities Associations' Master Repurchase Agreement. In all other respects, Repurchase Agreements shall



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conform to the restrictions set forth in Government Code Sections 53601(i) and 53635(i). (Legal Authority – Government Code Sections 53601.)

(j) Medium Term Notes

Medium-term notes are obligations of a domestic corporation or depository institution having a rating of “A” or better by a nationally recognized rating service. (Legal Authority-Government Code Sections 53601(j) and 53635(j)).

(k) Mutual Funds

Mutual funds qualifying for District investment must restrict their portfolios to issues approved by the same state investment statute that defines investment alternatives for cities. In addition, these mutual funds must adhere to Federal statutes regarding the size of the mutual fund and its safety, must attain the highest ranking of two of the three largest rating services and must retain an investment advisor registered with the Securities and Exchange Commission with not less than five years’ experience investing assets of at least five hundred million dollars. The mutual funds must invest solely in investments that the District itself could legally purchase. (Legal Authority-Government Code Section 53601(k) and 53635(k)).

(l) Money Market / Passbook Savings / Demand Deposits

These are authorized by Government Code Section 53637 and must be insured by FDIC, FSLIC or collateralized as required by State law.



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Appendix "B" **Glossary of Investment Terms**

Because the Investment Policy of the Beach Cities Health District is available to the public, related terminology is included as a part of this policy.

Accrued Interest - Interest earned but not yet received.

Active Deposits - Funds that are immediately required for disbursement.

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

Arbitrage - Transactions by which securities are bought and sold in different markets at the same time for the sake of the profit arising from a yield difference in the two markets.

Asked Price - The price a broker dealer offers to sell securities.

Average Life - The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Banker's Acceptance - A high quality, short-term money market instrument used to finance international trade. There has never been an instance of a failure to pay a banker's acceptance in full at its maturity date.

Basis Point - One basis point is one hundredth of one percent (.01% or 0.0001).

Bid Price - The price a broker dealer offers to purchase securities.

Bond - A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book Entry - The system maintained by the Federal Reserve, by which most money market securities are delivered to an investor's custodial bank. The Federal Reserve maintains a computerized record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment.)

Book Value - The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

Broker - Someone who brings buyers and sellers together and is compensated for his/her service.



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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.

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

Call Risk - The risk to a bondholder that a bond may be redeemed prior to maturity.

CalTRUST - a Joint Powers Authority ("JPA") established by public agencies in California for the purpose of pooling and investing local agency funds.

Cash Sale/Purchase - A transaction that calls for delivery and payment of securities on the same day that the transaction is initiated.

Certificate of Deposit - A deposit of funds for a specified period of time that earns interest at a specified rate. Commonly known as "CDs." Maturities range from a few weeks to several years. Interest rates are set by the competitive market place.

Collateral - Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Commercial Paper - Short-term, negotiable unsecured promissory notes of corporations.

Comprehensive Annual Financial Report (CAFR) - The official annual financial report for the District. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principals (GAAP).

Constant Maturity Treasury (CMT) Index - The 1 Year CMT Index is the twelve month "average" of monthly yields on United States Treasury Securities adjusted to a constant maturity of one year as made available by the Federal Reserve in Federal Reserve Statistical Release H.15.

Coupon - The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Analysis - A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Current Yield - The interest paid on an investment expressed as a percentage of the current price of the security.



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Custodian - A bank or other financial institution that keeps custody of stock certificates and other assets.

Defeased Bond Issues - Issues that have sufficient money to retire outstanding debt when due so that the agency is released from the contracts and covenants in the bond document.

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

Derivative - Securities that are based on, or derived from, some underlying asset, reference date, or index.

Discount - The difference between the cost of a security and its value at maturity when quoted at lower than face value.

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

Duration - A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Fair Value - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fannie Mae - Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Fed Wire - A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

Federal Deposit Insurance Corporation (FDIC) - Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently \$100,000) per account.

Federal Reserve System - The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks and 5,700 commercial banks that are members.

Freddie Mac - Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.



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Ginnie Mae - Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

Government Accounting Standards Board (GASB) - A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

Government Securities - An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

Guaranteed Investment Contracts (GICS) - An agreement acknowledging receipt of funds, for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

Inactive Deposits (Idle Funds) - Funds not immediately needed for disbursement.

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

Interest Rate Risk - The risk associated with declines or rises in interest rates that cause an investment in a fixed-income security to increase or decrease in value.

Inverted Yield Curve - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

Investment Agreements - An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

Investment Company Act of 1940 - Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment Policy - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Investment-grade Obligations - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating District.

Lehman 1 - 3 Year Government Index - Represents all U.S. Treasury securities with maturities ranging from 1-3 years.



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Liquidity - An asset that can easily and rapidly be converted into cash without significant loss of value.

Local Agency Investment Fund (LAIF) - A pooled investment vehicle for local agencies in California sponsored by the State of California and administered by the State Treasurer.

Local Agency Investment Pool - A pooled investment vehicle sponsored by a local Agency or a group of local agencies for use by other local agencies.

Mark-to-market - The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Risk - The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value - Current market price of a security. 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 (also known as Mid-Term) - Maturities of two to 1- years.

Modified Duration-A measure of exposure to market risk of a security or a portfolio. It is the percent change in the price of a security (portfolio) or a 100 basis point change in the security's (portfolio's) yield.

Moody's - Moody's Investment Service, Inc. One of the three best-known rating agencies in the United States, the others being Standard and Poor's Corporation (S&P) and Fitch IBCA, Inc. (Fitch).

Money Market Mutual Fund - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

Mutual Funds - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.

4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

National Association of Securities Dealers (NASD) - A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Net Asset Value - The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.)
[(Total assets) - (Liabilities)] / (Number of shares outstanding)

Negotiable Certificate of Deposit-A large denomination certificate of deposit which can be sold in the open market prior to maturity.

No-Load Fund - A mutual fund that does not levy a sales charge on the purchase of its shares.

Nominal Yield - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

New Issue - Term used when a security is originally "brought" to market.

Note - A written promise to pay a specified amount to a certain entity on demand or on a specified date.

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 \$1,000 increments per bond.

Perfected Delivery - Refers to an investment where an independent third party representing the purchasing entity holds the actual security or collateral.

Portfolio - Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.



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Positive Yield Curve - A chart formation that illustrates short-term securities having lower yields than long-term securities

Premium - The amount by which the price paid for a security exceeds the security's par value.

Primary Dealer - A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Prime Rate - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

Principal - The face value or par value of a debt instrument, or the amount of capital invested in a given security.

Prospectus - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC that typically includes information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement")

Prudent Investor Standard (also known as Prudent Person Rule) - A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing funds. The test of whether the standard is being met is if a prudent person acting in a similar situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

Purchase Date - The date in which a security is purchased for settlement on that or a later date.

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 or the current income return.

Repurchase Agreement (REPO) - A transaction where the seller agrees to buy back from the buyer the securities at an agreed upon price on demand or at a specified date.

Reverse Repurchase Agreement (REVERSE REPO) - A transaction where the seller agrees to buy back from the buyer the securities at an agreed upon price on demand or at a specified date.

Risk - Degree of uncertainty of return on an asset.



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Rule 2a-7 of the Investment Company Act - Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13 - month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar (\$1.00).

Rule G-37 of the Securities Rulemaking Board - Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

Safekeeping - Holding of assets (e.g., securities) by a financial institution

Safekeeping Service - Offers storage and protection of assets provided by an institution serving as an agent.

Sallie Mae - Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

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

Securities and Exchange Commission (SEC) - The federal District responsible for supervising and regulating the securities industry.

Settlement Date - The date on which a trade is cleared by delivery of securities against funds.

Serial Bond - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Sinking Fund - Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

Standard and Poor's Corporation (S&P) - One of the three best-known rating agencies in the United States, the others being Moody's Investment Service, Inc. and Fitch IBCA, Inc. (Fitch).

Swap - Trading one asset for another.

Tax and Revenue Anticipation Notes (TRANS) - Notes issued in anticipation of receiving tax proceeds or other revenues at a future date.

Term Bond - Bonds comprising a large part or all of a particular issue that come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.



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Time Certificate of Deposit-A non-negotiable certificate of deposit that cannot be sold prior to maturity.

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

Treasury Bills (also known as T-bills) - U.S. Treasury Bills which are short-term, direct obligations of the U.S. Government, issued with original maturities of 13 weeks, 26 weeks and 52 weeks (3-month, 6-month, 1-year); sold in minimum amounts of \$10,000 in multiples of \$5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

Treasury Bonds (also known as T-bonds) - U.S. Treasury long-term obligations, direct obligations of the U.S. Government, generally mature in 10 years or more.

Trustee or trust company or trust department of a bank - A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

Underwriter - A dealer who purchases a new issue of municipal securities for resale.

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

U.S. Treasury Obligations - Debt obligations of the United States Government sold by the Treasury Department in the forms of Bills, Notes, and Bonds. **Bills** are short-term obligations that mature in 1 year or less and are sold on the basis of a rate of discount. **Notes** are obligations that mature between 1 year and 10 years. **Bonds** are long-term obligations that generally mature in 10 years or more.

Weighted Average Maturity (WAM) - The average maturity of all the securities that comprise a portfolio that is typically expressed in days or 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 current market price of the security.

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.



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Yield Curve - A graphic representation that shows the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

Zero-coupon Securities - Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.