Oscar J. Garcia, CPA
Auditor-Treasurer

San Joaquin Valley Insurance Authority Treasury Investment Pool

INVESTMENT POLICY

Established: January 20, 2012

Current Revision: ~~March 26, 2019~~May 8, 2020

SAN JOAQUIN VALLEY INSURANCE AUTHORITY

INVESTMENT POLICY

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Commented [PJ1]: Section removed per suggestion from Mark Bray

SAN JOAQUIN VALLEY INSURANCE AUTHORITY

INVESTMENT POLICY

1.0 **Purpose**

The San Joaquin Valley Insurance Authority's policy is to invest public funds in a manner which will provide a market average rate of return consistent with the objectives included in this Investment Policy while meeting the daily cash flow demands of the San Joaquin Valley Insurance Authority (the Authority) and conform to all state laws governing the investment of public funds.

This Investment Policy is established under Government Code sections 6509.5 and 53646, and Article 13, paragraph (a), of the Amended and Restated Joint Exercise of Powers Agreement Creating the San Joaquin Valley Insurance Authority.

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2.0 **Scope**

The San Joaquin Valley Insurance Authority Investment Policy applies to all financial assets deposited and retained in the Authority.

3.0 **Objective**

The primary objectives, in priority order, of the Authority's investment activities shall be the following:

~~3.1 Legality. Investments shall only be made in securities legally permissible by the California Government Code, Sections 27000 et seq. and 53600 et. seq.. In recognition of a rapidly changing and expanding marketplace, new concepts or securities shall be reviewed for compliance and possible consideration. Legality issues shall be resolved with outside counsel.~~

~~3.2~~3.1 Safety. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To attain this objective, diversification is required. Investments should be made in securities of high quality to avoid credit risk and loss of principal.

~~3.3~~3.2 Liquidity. The investment portfolio should remain sufficiently liquid to enable the Authority to meet all its operating requirements which might be reasonably anticipated~~ or respond to opportunities for investments arising from changing market conditions~~.

~~3.4~~3.3 Return on Investment. The investment portfolio shall be designed with the objective of attaining the highest rate of return, taking into consideration the income preservation, current market conditions, the present phases of the market cycle, both present and future cash flow needs, other primary goals of the Safety and Liquidity objectives of this policy and the cash flow characteristics of the portfolio.

4.0 **Delegation of Authority**

The power to manage the Authority’s Investment Pool is derived from Government Code Section 53607. Management responsibility for the investment program, in accordance with this provision, has been delegated to the Auditor-Treasurer. This delegation is included in Article 13 of the Joint Exercise of Powers Agreement creating the Authority and is subject to annual renewal by the Board. The Auditor-Treasurer shall establish written procedures for the operation of the investment program consistent with the Authority’s Investment Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Auditor-Treasurer. The Auditor-Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate staff.

The Authority Board shall annually review and monitor its Investment Policy. The Board may also cause an annual audit to determine the Auditor- Treasurer's compliance with th~~e~~is ~~Authority’s~~ Investment Policy.

5.0 **Ethics and Conflict of Interest**

The Auditor-Treasurer, the Authority Board and staff 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.

Receipt of honoraria, gifts and gratuities from advisors, brokers, dealers, bankers or other persons with whom the Authority Investment Pool conducts business by any member of the Board shall require the completion of an annual Statement of Economic Interests by each member to be filed with the member's respective agency. This policy sets the limit on the amount of honoraria, gifts and gratuities that a committee member may receive from a single source in calendar year consistent with maximum amount set by the California Fair Political Practices Commission.

6.0 Prudence

Investments shall be made with judgment and care, under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, and not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

6.1 Standard of Prudence. The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with the Authority Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk of market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

7.0 **Borrowing for Purposes of Making Investments**

The Auditor-Treasurer is prohibited from the practice of borrowing for the sole purpose of making investments.

8.0 Authorized Investments and Limits

~~The following securities are authorized investments for the Authority Investment Pool.~~ All investments shall be governed by the Government Code and comply with the specific limitations set forth within this Investment Policy. Securities shall be valued at amortized cost when determining their percentage to the money in the Authority Investment Pool. Additions or deviations from this list~~, in addition to being permissible~~ must be expressly authorized by ~~under~~ the Government Code~~, require~~and approv~~al~~ed by the Auditor-Treasurer. Investments not expressly authorized by law are prohibited.

Appendix A summarizes the authorized investments and applicable limits. (CDIAC Local Agency Investment Guidelines) Where there is a percentage limitation for a particular category of investment, that percentage is only applicable at the time of purchase. If at the end of any quarter any percentage in a restricted security is higher than the maximum allowed by category at time of purchase, the Auditor-Treasurer shall review, within 90 days, for any adjustments to the portfolio holdings so that the percentages are brought within the percentage limits.

The Auditor-Treasurer interprets the authorized investment limits to be based upon the portfolio allocation at the time a security is purchased. The portfolio allocation may temporarily fall outside of these limits due to maturities and fluctuations in the size of the pool after the purchase of a security. Additionally, the applicable credit ratings are interpreted to be based upon the rating at the time the security is purchased.

8.1 United States Treasury Bills, Notes, Certificates of Indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.

8.2 Obligations issued by Federal Farm Credit Banks, Federal Home Loan Banks, the Federal Home Loan Mortgage Company, or in obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in obligations, participations, or other instruments of or issued by a federal agency or a United States Government-sponsored enterprise.

8.3 Bills of Exchange or Time Drafts drawn on and accepted by a commercial bank, otherwise known as Bankers Acceptances, both domestic and foreign, which are eligible for purchase by the Federal Reserve System. Any investment in Bankers Acceptances shall be restricted to the top 150 ~~world~~ banks in the world as determined by their total assets and limited to those institutions in this group whose short term debt (commercial paper) is of prime quality of the highest ranking or of the highest letter and numerical rating as provided for by a nationally recognized statistical-rating service.

Purchases of Bankers Acceptances may not exceed 180 days maturity or 40 percent of the money in the Authority's Investment Pool.

8.4 Commercial Paper of prime quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc., or Standard and Poor's (P-1; A-1+). Eligible paper is 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 and having an "A" or higher rating for the issuer's other outstanding debentures by Standard and Poor's, or its equivalent or better ranking by a nationally recognized statistical~~-~~ rating ~~service~~organization.

Investments in Commercial Paper may not exceed 270 days maturity and is limited to 10 percent of the assets held by the Treasury Investment Pool in any single issuer (GC 53601 (h)). Investments may not exceed 25 percent of the money in the Treasury Investment Pool in accordance with Section 53601 (h) of the California Government Code. Commercial paper should not be more than five percent of the outstanding paper of the issuing corporation.

8.5 Negotiable Certificates of Deposit issued by a nationally or state-chartered bank, savings association, federal association, or state-licensed branch of a foreign bank. Any investment is to be restricted to the top 150 ~~world~~ banks in the world as determined by their total assets and limited to those institutions in this group whose short term debt (commercial paper) is of prime quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc. or Standard and Poor's (P-1; A-1+). As an alternative to the credit guidelines above, banks, savings associations or federal associations having a four star rating or higher as provided for by Bauer Financial, Inc. or a comparable rating service, shall be considered eligible institutions for these investments.

Investments in Negotiable Certificates of Deposit (~~in combination with~~including those allowed under section 8.6.1) may not exceed 30 percent of the money in the Authority's Investment Pool. No more than 5 percent of the money shall be invested in any one institution.

8.6 Non-negotiable Time Certificates of Deposit issued by a nationally or state-chartered bank, savings association or federal association (GC 53601 (n)). Unless fully covered by FDIC insurance, including the interest earned, these investments require full collateralization with government securities totaling 110 percent or mortgages totaling 150 percent of the principal amount (GC 53652). Any investment is to be restricted to those institutions whose short term rating is of prime quality of the highest ranking as provided for by Moody's Investors Service, Inc. or Standard and Poor's (P-1; A-1+). As an alternative to the credit guidelines above, banks, savings associations or federal associations having a four star rating or higher as provided for by Bauer Financial, Inc. or a comparable rating service, shall be considered eligible institutions for these investments. Any investment will require the approval and execution of a Contract for Deposit by the Auditor-Treasurer as authorized by GC 53682.

Investments in Non-negotiable Time Certificates of Deposit may not exceed 50 percent of the money in the Authority's Investment Pool. No more than 15 percent of the money shall be invested in any one institution.

8.6.1 Investments in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit. Investments will be made in compliance with Government Code section 53635.8. Investments shall be initially placed with a nationally or state-chartered commercial bank, savings bank, savings and loan association or a credit union in this state, which shall be known as the selected depository institution. Any investment will require the approval and execution of a Deposit Placement Agreement by the Auditor-Treasurer. ~~Combined purchases~~Investments in certificates of deposit under sections 8.5 and 8.6.1 ~~shall~~ may not exceed 30 percent of the ~~portfolio~~money in the Authority Investment Pool. Additionally, ~~purchases~~ investments under 8.6.1 shall not exceed 15 percent of the ~~portfolio~~money in the Authority Investment Pool.

~~8.7~~ Investments in Repurchase Agreements representing United States Treasury Securities, United States Agency discount and coupon securities, domestic and foreign Banker's Acceptances, commercial paper, and domestic bank/savings associations or federal associations Negotiable Certificates of

Deposit.

Investments shall be made only after the execution of a Repurchase and Custody Agreement (Tri-Party Agreement) between the Authority or the investment manager (if under contract), the dealer and the Custodian. Investments will consist of overnight Repurchase Agreements, which includes weekend placements and maturities; however, securities with longer maturities may be used as collateral for these Agreements. (GC 53635.2)

Excluding circumstances of market-timing and known cash demands, investments in Repurchase Agreements shall be limited to not more than 15 percent of the money in the Authority~~h~~ Investment Pool. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against these securities. Any exceptions to the maturity or investment amount provisions will require written approval by the Auditor-Treasurer.

8.8 Medium-term Notes 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 shall be rated in a rating category of "A" or higher, by Standard and Poor's Corporation, or its equivalent or better by a nationally recognized rating service.

Investments in Medium-term Notes may not exceed 30 percent of the money in the Authority Investment Pool.

8.9 Investment of funds in the Local Agency Investment Fund (LAIF) created by law, which the State Treasurer invests through the Pooled Money Investment Account. Money invested in LAIF is available for overnight liquidity; however, it is also subject to a limited number of transactions per month. Money shall be placed in LAIF as alternative liquid investments under the guidelines of this policy pertaining to yield. The maximum balance that can be held in the fund is the maximum amount permitted by State Treasury policy.

8.10 Shares of beneficial interest issued by diversified management companies, otherwise known as Mutual Funds, investing in the securities and obligations as authorized by ~~the~~ GC 53601 et. seq.

To be eligible for investment, these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by two of the largest nationally recognized rating services, or (2) have an investment adviser registered with the Securities and Exchange Commission with at least five years' experience investing in the securities authorized by the code sections noted above and with assets under management in excess of $500,000,000.

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. To be eligible for investment, these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations, or (2) retain an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500,000,000 (GC 53601).

Investment in Mutual Funds shall not include the payment of any commission that diversified management~~these~~ companies may charge and may not exceed 20 percent of the surplus funds in the Authority Investment Pool. Only 10 percent of the surplus funds may be invested in any one mutual fund. (GC 53601, 53635.2)

8.11 External Investment Managers. The Auditor-Treasurer may, subject to San Joaquin Valley Insurance Authority Board approval, contract with external investment managers to provide investment management services. These managers may be hired to invest funds not needed for liquidity and to increase the rate of return of the pool by employing an active investment strategy. The external investment manager is allowed to make specific investment decisions within the framework of the SJVIA investment policy.

External investment managers are required to provide timely transaction documentation and investment reports to ensure that the manager's actions comply with the requirements of the law and the SJVIA investment policy. External investment managers shall remit, at least monthly, the interest earnings to the Pool.

Selection of External Investment Managers is subject to section 13.0 of the SJVIA Investment Policy. Additionally, after selection, the manager's performance shall be reviewed against the agreed upon benchmark.

8.12 Bonds, notes or warrants of the State of California and any local agency within California, including bonds payable solely out of the revenues form a revenue-producing property owned, controlled, or operated by the local agency or by a department board, agency or authority of the local agency.

8.13 Investment of funds in Fresno County and/or Tulare County treasury investment pools.

8.14 Asset or Mortgage Backed Securities with a maximum five years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating service. Purchase of securities authorized by this subdivision may not exceed 20 percent of the agency's surplus money that may be invested pursuant to this section.

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~~8.14~~8.15 Ineligible Securities

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1. Securities Lending
2. Inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages.
3. A local agency shall not invest any funds in any security that could result in zero interest accrual if held to maturity. However, a local agency may hold prohibited investments purchased prior to January 1, 1996 until their maturity dates.
4. Financial futures and options.

9.0 **Selection of Investments**

To the extent possible, investments shall be made following a minimum of three competitive comparisons with offerings documented and retained for each type of investment.

10.0 **Diversification**

The Authority Investment Pool may be diversified by security type and institution.

11.0 **Maximum Maturities**

To the extent possible, investments shall be made to match anticipated cash requirements. Unless matched to a specific cash flow, normal investments will be in securities such that the average weighted maturity of the Authority Investment Pool shall not exceed 365 days.

12.0 **Selling Securities Prior to Maturity**

Securities purchased shall normally be held until maturity. Occasionally, opportunities will exist to sell securities prior to maturity and purchase other securities (swap/trade). These transactions shall only be considered if the proposed swap/trade enhances the yield over the life of the new security on a total return basis.

Additionally, securities that are no longer in compliance with the Authority Investment Policy may be sold prior to maturity. Securities may also be sold in order to maintain the liquidity of the pool.

13.0 **Authorized Financial Dealers and Institutions**

The Auditor-Treasurer shall maintain a list of financial institutions authorized to provide investment services. In addition, a list shall also be maintained of approved security broker/dealers selected by credit worthiness, who maintain an office in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following: audited financial statements, proof of Financial Industry Regulatory Authority membership, trading resolution, proof of state registration, completed broker/dealer questionnaire, certification of having read ~~the Authority's~~this Investment Policy, and if applicable, depository contracts. Broker/dealers are evaluated and selected based upon criteria that include: organization experience and credibility, individual broker/dealer, compliance, product inventory, and economic research.

An annual review of the financial conditions and registrations of selected brokers shall be conducted by the Auditor-Treasurer. A current audited financial statement is required to be on file for each authorized financial institution and broker/dealer.

Investment managers are evaluated and selected based upon criteria that include: organization experience and credibility, staff experience, compliance, and performance.

The selection of any broker, brokerage firm, dealer or securities firm that has, within any consecutive 48 month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the Auditor-Treasurer or member of the Board of the San Joaquin Valley Insurance Authority or any candidate for those offices shall be prohibited. The Authority will, to the best of its ability, monitor and comply with this requirement.

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14.0 **Confirmation**

Receipts for confirmation of purchase of authorized securities should include the following information: trade date, par value, maturity, rate, price, yield, settlement date, description of securities purchased, agency's name, net amount due, and third party custodian information. Confirmation of all investment transactions should be received by the Auditor-Treasurer within five business days of the transaction.

15.0 **Safekeeping and Custody**

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

16.0 Performance Standards

The investment portfolio shall be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account investment risk constraints and cash flow needs.

16.1 Market Yield Benchmark. The investment strategy is passive. Given this strategy, the basis used by the Auditor-Treasurer to determine whether market yields are being achieved shall be the two-year U.S. Treasury note rate.

17.0 Reporting

The Auditor-Treasurer shall provide a quarterly investment report to the Authority Board. The quarterly investment report contains, but is not limited to, the following investment information:

A. The type of investment, name of issuer, date of maturity, par and dollar amount invested in all securities, investments, and monies;
B. A description of any funds, investments that are under the management of contracted parties;
C. The market value as of the date of the report, and the source of this valuation for any security within the treasury or under management by contract;
D. The weighted average maturity of investments within the treasury;
E. Purchase dates, book values, and current credit rating of issuers;
F. Yield to maturity;
G. Overall portfolio yield based on cost;
~~H.~~ Statement that the portfolio is in compliance (or the manner in which it does not comply) with the Authority's Investment Policy.

H.

18.0 **Internal Control**

As part of the Authority's annual independent audit, the investment program shall be reviewed for appropriate internal controls that provide assurance of compliance with policies and procedures.

19.0 **Investment Policy Review**

The Authority's Investment Policy shall be reviewed on an annual basis by the Auditor-Treasurer and shall be rendered annually to the Authority Board.

The Board shall accept and approve the Authority's Investment Policy and any changes thereto at a public meeting. ~~(GC 27133)~~ (GC 53646)

Approved

Oscar J. Garcia, CPA Date
Auditor-Treasurer

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APPENDIX A

Permitted Investments/Deposits	Government Code Limits %	Investment Policy Limits %	Investment Policy Term Limit	Rating
Securities of the U.S. Government	No Limit	100%	5 years	N/A
Securities issued by United States Government Sponsored Enterprises	No Limit	100%	5 years	N/A
Bankers Acceptances (1)	40%	40%	180 days	N/A
Commercial Paper	25%	25%	270 days	P-1, A-1
Negotiable Certificates of Deposit (2)	30%	30%	13 months	P-1, A-1 or 4 Star
Non-negotiable Certificates of Deposit (2)	No Limit	50%	13 months	P-1, A-1 or 4 Star
Account Registry Service Deposits (2)	30%	15%	13 months	N/A
Repurchase Agreements	No Limit	15%	Overnight/Weekend	N/A
Medium Term Notes	30%	30%	5 years	A
LAIF (3)	No Limit	$50,000,000	5 years	N/A
Mutual Funds (4)	20%	20%	5 years	AAA, AAa
Asset or Mortgage Backed Securities	20%	20%	5 year	AA

APPENDIX A
(Continued)

(1) The San Joaquin Valley Insurance Authority Investment Policy limits any investment in bankers acceptances to the top 150 ~~world~~ banks in the world as determined by their total assets and limited to those institutions in this group whose short term debt is of prime quality and of the highest ranking as provided for by Moody's or Standard and Poor's (P-1, A-1+).

(2) Banks, savings associations or federal associations having a "4 Star" or higher rating as provided by Bauer Financial, Inc. or a comparable rating service. For negotiable certificates of deposit, no more than 5 percent of the money shall be invested in any one institution. Negotiable certificates of deposit and account registry service deposits combined shall not exceed 30% of the portfolio. For non-negotiable certificates of deposit, no more than 15 percent of the money shall be invested in any one institution.

(3) State Treasury policy limits the investment in LAIF, excluding bond and note proceeds. Government Code does not place a percentage limit on the amount of money that may be invested in LAIF.

(4) Diversified management companies investing in the securities and obligations as authorized by California Government Code, Sections 53601, et seq., shall either (1) attain the highest ranking or the highest letter and numerical rating provided by two of the largest nationally recognized rating services, or (2) have an investment adviser registered with the SEC with at least five years experience investing in the securities authorized by code sections noted in the Authority's Investment Policy and with assets under management in excess of $500,000,000.

Diversified management companies issuing shares of beneficial interest that are money market funds registered with the Securities and Exchange Commission (SEC) under the Investment Act of 1940 shall either (1) attain the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations, or (2) retain an investment adviser registered or exempt from registration with the SEC with not less than five years experience managing money market mutual funds with assets under management in excess of $500,000,000. Only 10 percent of the money may be invested in any one mutual fund.

APPENDIX B

RATING SUMMARY

RATING SERVICE	RATING CATEGORY	RATING DEFINITION
Moody's	Aaa	Best Quality
	Aa	High Quality
	A	Upper-medium grade
	Baa	Medium grade obligations
	Ba	Judged to have speculative elements
	B	Lack characteristics of desirable investment
	Caa	Investment in poor standing
	Ca	Speculative in a high degree
	C	Poor prospect of attaining investment standing
Moody's Modifiers	1,2,and 3	Rankings within rating category
Moody's Commercial Paper	Prime-1	Superior ability for repayment
	Prime-2	Strong ability for repayment
	Prime-3	Acceptable ability for repayment
	Not Prime	Do not fall in top 3 rating categories
Standard & Poors	AAA	Highest Rating
	AA	Strong capacity for repayment
	A	Strong capacity for repayment but less than AA category
	BBB	Adequate capacity for repayment
	BB	Speculative
	B	Greater vulnerability to default than BB category
	CCC	Identifiable vulnerability to default
	CC	Subordinated debt of issues ranked in CCC category
	C	Subordinated debt of issues ranked in CCC category
	Cl	Income bonds where no interest is paid
	D	Default
Standard & Poors – Modifiers	(+) or (-)	Rankings within rating category
Standard & Poors – Commercial	A-1	Highest degree of safety
	A-2	Timely repayment characteristics is satisfactory
	A-3	Adequate capacity for repayment
	B	Speculative
	C	Doubtful repayment
	D	Default

APPENDIX B
(Continued)

RATING SUMMARY

RATING SERVICE		RATING CATEGORY	RATING DEFINITION
Fitch		AAA	Highest credit quality
		AA	Very high credit quality
		A	High credit quality
		BBB	Good credit quality
		BB	Speculative
		B	High speculative
		CCC, CC, C	High default risk
		DDD, DD, D	Default
Fitch	Modifiers	"+" or "-	Relative status within rating categories
Fitch	Commercial Paper	F1	Highest credit quality
		F2	Good credit quality
		F3	Fair credit quality
		B	Speculative
		C	High default risk
		D	Default
Bauer		5 Star	Superior
		4 Star	Excellent
		3 ½ Star	Good
		3 Star	Adequate
		2 Star	Problematic
		1 Star	Troubled
		Zero	Our lowest star rating

Glossary of Cash Management Terms

The following is a glossary of key investing terms, many of which appear in San Joaquin Valley Insurance Authority Investment Policy. This glossary has been adapted from the Government Finance Officer's Association (GFOA) sample investment policy.

Accrued Interest - The accumulated interest due on a bond as of the last interest payment made by the issuer.

Agency - A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

Amortization - The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

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.

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

Basis Point - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

Bid - The indicated price at which a buyer is willing to purchase a security or commodity.

Book Value - The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

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.

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

Glossary
(continued)

Certificate of Deposit – A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender at the end of the loan period.

Certificate of Deposit Account Registry System (CDARS) – A private CD placement service that allows local agencies to purchase more than $100,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $100,000 each, so that FDIC coverage is maintained.

Collateralization - Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

Commercial Paper - An unsecured short-term promissory note issued, with maturities ranging from 1 to 270 days.

Convexity - A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Coupon Rate - The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

Credit Quality - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating ~~agencies~~services.

Credit Risk - The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Current Yield (Current Return) - A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

Delivery Versus Payment (DVP) - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Discount - The amount by which the par value of a security exceeds the price paid for the security.

Diversification - A process of investing assets among a range of security types by sector, maturity, and quality rating.

Glossary
(continued)

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.

Federal Funds (Fed Funds) - Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

Federal Funds Rate - Interest rate charged by one institution lending federal funds to the other.

Financial Industry Regulatory Authority (FINRA) is the largest independent regulator for all securities firms in the United States.

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."

Interest Rate - See "Coupon Rate."

Interest Rate Risk - The risk associated with declines or rises in interest rates which cause in 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 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 agency.

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

Local Agency Investment Fund – A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

Glossary
(continued)

Local Government Investment Pool (LGIP) - An investment by local governments in which their money is pooled as a method for managing local funds.

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.

Maturity - The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity."

Medium-Term Note – Corporate or depository institution debt securities meeting certain minimum quality standards (as specified in California Government Code) with a remaining maturity of five years or less.

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).

Mortgage Backed Securities – Mortgage-backed securities (MBS) are created when a purchaser of residential real estate mortgages creates a pool of mortgages and markets undivided interest or participations in the ~~pool..~~pool. MBS owners receive a prorate share of the interest and principal passed through from the pool of mortgages. Most MBS are issued and/or guaranteed by federal agencies and instrumentalities.

Mortgage Pass-through Obligations – Securities that are created when residential mortgages are pooled together and undivided interests or participations in the stream of revenues associated with the mortgages are sold.

Mutual Fund - 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.

Glossary
(continued)

Mutual Fund cont. -

6. Have all individuals who sells 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.

Negotiable Certificates of Deposit – Short-term debt instrument that usually pays interest and is issued by a bank, savings or federal association, or state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

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)

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."

Non-negotiable Certificates of Deposit – CDs that carry a penalty if redeemed prior to maturity. Non-negotiable CDs issued by banks and savings and loans are insured by the Federal Deposit Insurance Corporation up to $100,000, including principal and interest. Amounts deposited above this amount may be secured with other forms of collateral.

Offer - An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

Par - Face value or principal value of a bond, typically $1,000 per bond.

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.

Principal - The face value or par value of a debt instrument. Also may refer to 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. This can include 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.

Glossary
(continued)

Prudent Person Rule - An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

Regular Way Delivery - Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+1 basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.

Reinvestment Risk - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

Repurchase Agreement (repo or RP) - An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

Reverse Repurchase Agreement (Reverse Repo) - An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

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).

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

Swap - Trading one asset for another.

Term Bond - Bonds comprising a large part or all of a particular issue which 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.

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 - Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Glossary
(continued)

Treasury Notes - Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from $1,000 to $1 million or more.

Treasury Bonds - Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of $1,000. Currently, the longest outstanding maturity for such securities is 30 years.

Uniform Net Capital Rule - SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

Volatility - A degree of fluctuation in the price and valuation of securities.

Weighted Average Maturity (WAM) - The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

When Issued (WI) - A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

Yield - The current rate of return on an investment security generally expressed as a percentage of the security's current price.

Yield-to-call (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

Yield Curve - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

Yield-to-maturity - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

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.