

CITY OF REDONDO BEACH STATEMENT OF INVESTMENT POLICY

INTRODUCTION

This statement is intended to establish the policies for prudent investment of the City's funds, and to provide guidelines for suitable investments.

It is the policy of the City of Redondo Beach to invest public funds not required for immediate day-to-day operations in safe and liquid investments having a market-average rate of return while conforming to all state statutes governing the investment of public funds.

The ultimate goal is to enhance the economic status of the City while protecting its funds.

The investment policies and practices of the City of Redondo Beach are based upon Federal, State, and local law and prudent money management. The primary goals of these policies are:

1. To assure compliance with all Federal, State and local laws governing the investment of monies under the control of the City Treasurer.
2. To maintain the principal value of assets entrusted to this office and provide adequate liquidity to meet operating expenditures.
3. It is recognized that within a well-diversified portfolio, at any particular point in time, that security valuations are impacted by changes in interest rates and economic conditions. Accordingly, securities may at times be worth less than original purchase price based on market fluctuations. Recognizing these factors, it is the expressed intention of our investment policy to hold all investments to maturity to ensure the return of all invested principal dollars. In addition, through the maintenance of sufficient diversification of investments, the forced liquidation of investments at a loss will be avoided, if at all possible. It is further understood, however, that in the event of the need for a forced liquidation of investments to meet unplanned or unanticipated cash flow demands, a potential loss of investment principal would most likely occur.
4. Within constraints of safety and liquidity, generate a market rate of return within the parameters of this Statement of Investment Policy and the guidelines for suitable investments.

I. SCOPE

In accordance with the City of Redondo Beach Charter Section 11.1 and subsequent ordinance, the City Treasurer is authorized to invest the City's funds in accordance with California Government Section 53600 et seq. This investment policy applies to all financial assets, investment activities and debt issues of the City of Redondo Beach (including funds which are invested by trustees appointed under debt trust indentures, with direction from the City Treasurer). This policy covers the investment activities of all contingency reserves and inactive cash balances under the direct authority of the City.

All monies entrusted to the City Treasurer will be pooled in a diversified portfolio. The Investment Pool or "Portfolio" will be referred to as the "Pool" throughout the remainder of this document. The City Treasurer and staff will observe, review and react to changing conditions that affect the Pool.

Investments made on a pooled basis include investments of the City and its component units, including the City of Redondo Beach, the Redevelopment Agency, the Parking Authority, the Public Financing Authority, and the Housing Authority. The City's Comprehensive Annual Financial Report identifies the fund types incorporated under the City's investment pool as follows:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Fiduciary-Agency Funds
- Any new funds created by the City Council, unless specifically exempted

All debt issue proceeds will be invested in accordance with the associated trust indenture, and in such a manner that facilitates arbitrage rebate calculations. Debt issue proceeds invested through the combined resources of the City Treasurer and Bank Trustees are listed within Exhibit A to this Investment Policy.

In determining the investment of funds associated with bonded debt issues, debt proceeds will be invested in accordance with the most restrictive investment requirements contained within either the City's investment policy or the associated bond trust indenture.

Excluded from the scope of the City Treasurer's Investment responsibilities are investments related to funds dedicated for Retirement purposes and Deferred Compensation investment funds.

II. INVESTMENT PHILOSOPHY

Generally, investments shall be made in the context of the "Prudent Investor" rule which states that:

"Investment shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The City will employ a buy and hold strategy, i.e. the City intends to hold the investment until its stated maturity unless there is a strong compelling reason not to. The City philosophy prohibits speculation (i.e. purchase of securities with intent to profit from favorable changes in market prices) in the Pool."

III. OBJECTIVES

A. Safety of Principal

Safety of Principal is the foremost objective of the City of Redondo Beach. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institution default, broker-dealer default, or erosion of market value of securities. The City shall seek to preserve principal by mitigating the two types of risk, credit risk and market risk.

1. **Credit Risk.** Credit risk, defined as the risk of loss due to failure of an issuer of a security, shall be mitigated by investing in only very safe institutions and by diversifying the Pool so that the failure of any one issuer would not unduly harm the City's cash flow.
2. **Market Risk.** The risk of market value fluctuations due to overall changes in the general level of interest rates shall be mitigated by limiting the weighted average maturity of the City's Pool to 2.5 years in a diversified portfolio.

B. Liquidity

Liquidity is the second most important objective of the City of Redondo Beach. It is important that an investment contain the feature of being easily sold at any time with a minimal risk of loss of some portion of principal or interest. The City may experience unexpected or unusual circumstances that result in some investments needing to be sold to meet a contingency. Therefore, the City maintains a high degree of liquidity in its Pool. To the extent possible, investments will be made so that maturities are compatible with cash flow requirements. To ensure that sufficient investment portfolio liquidity is maintained at all times, a minimum of 20% of the overall investment portfolio's investments will be maintained in liquid investments with the State Local Agency Investment Fund (LAIF). In addition, inclusive of investments in LAIF, a minimum of 25 % of the overall investment portfolio will be comprised of investments maturing in one year; and 50% (cumulative) maturing within three years. No single investment shall be purchased with a term to maturity at the date of purchase that exceeds 5 years, except as special circumstances dictate and with the expressed approval of the City Council.

C. Maturity Matrix

Maturities of investments will be selected based on liquidity requirements in order to minimize interest rate risk and maximize earnings. Current and expected yield curve analysis will be monitored, and the portfolio will be invested accordingly. The weighted average maturity of the pooled portfolio should be maintained in the 1-1/2 to 2-1/2 year range. As a general investment guideline, the following percentages of the pooled portfolio should be utilized in the selection of investment maturity sectors:

<u>Maturity Range</u>	<u>Suggested Percentage</u>
Less than 1 year	Minimum of 25%
1 year to 3 years	Minimum of 50%
3 years to 5 years	Maximum of 50%
Over 5 years	Council authorization Required

D. Diversification

The City's investment pool will be diversified to avoid incurring unreasonable and avoidable risks. The investments will be diversified by security type and institution. Regarding specific security types indicated in paragraph VI of this Investment Policy, no more than 10% of the City's portfolio will be placed with any single private financial institution.

E. Performance Standards/Benchmark

Investment return becomes a consideration only after the basic requirements of investment safety and liquidity have been met. The City's pool shall be designed to attain a market-average rate of return through economic cycles. Because the investment portfolio is designed to operate on a 'hold-to-maturity' premise (or passive investment style) and because of the safety, liquidity, and yield priorities, the basis that will be used by the City Treasurer in the periodic purchase of investment instruments to determine whether market yields are being achieved shall be the following two performance standards and benchmarks:

- The one year moving average of the Constant Maturity Treasury Index (CMT), and
- The yield on the U.S. Treasury security of closest maturity to the purchased investment.

F. Timing of Maturity

Investment maturities shall be consistent with the cash flow requirements of the City. Investment maturities will also be timed so that a disproportionate number of investments will not mature simultaneously. In consideration of the timing of investment maturities, the City Treasurer shall select investment maturities utilizing a "laddering" maturity strategy, ensuring a sufficient, well balanced mix of investment maturities, on a regular basis, consistent with the operating cash requirement of the City.

IV. REPORTING

A. Budget and Finance Commission

The City's Budget and Finance Commission, within the advisory powers assigned to the Commission by Ordinance, shall serve in an independent investment advisory capacity, providing oversight

of the investment activities of the City Treasurer. Appointees to the Budget and Finance Commission shall exhibit, through a combination of experience and education, sufficient knowledge of investment instruments as to provide contributory advice to the meetings of the Budget and Finance Commission.

The Budget and Finance Commission shall review on a quarterly basis reports submitted by the City Treasurer analyzing the City's Investment Portfolio and Investment market trends. With respect to the Commission's investment oversight responsibilities, the intended purpose of the Budget and Finance Commission is to serve in an advisory capacity to the City Treasurer and City Council. Serving in this advisory capacity, the Budget and Finance Commission will provide an important oversight role to the function of City Treasurer's management of the City's investment portfolio, ensuring that the investment decisions of the City Treasurer are made in compliance with the established investment policy guidelines contained within this statement of Investment Policy.

B. Monthly and Quarterly Reporting

The City Treasurer shall render a monthly report to the City Council showing the type of investment, issuing institution, date of maturity, amount of deposit, current market value for all securities, rate of interest, percentage of the portfolio representing each investment category, comments with respect to the current fixed income marketplace and current economic conditions impacting the value of fixed income investments, and such data as may be required by the City Council. The City Treasurer shall make quarterly presentations to the Budget and Finance Commission and to the City Council analyzing the portfolio and investment market trends.

V. ETHICS AND CONFLICTS OF INTEREST

All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. The City Treasurer, or when appropriate the Deputy City Treasurer, shall avoid any transaction that might impair public confidence in the City's ability to govern and manage the investment of public funds in an effective manner. The City Treasurer, Deputy City Treasurer, or other official charged with the responsibility of making investment decisions shall have no vested interest in any investment being made involving public funds of the City, and shall gain no financial benefit from such investment decisions.

VI. AUTHORIZED INVESTMENTS

The City shall not enter into any investment transaction that might impair public confidence in the Redondo Beach City government. The City is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, the following investments are authorized, as further limited herein:

A. United States Treasury Bills, Notes and Bonds-- Maximum of 100%

United States Treasury Bills, Notes and Bonds, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. This investment is both safe and liquid. There is no percentage limitation of the pool that can be invested in this category, although a five-year maturity limitation is applicable.

B. Obligations issued by the Federal Government-- Maximum of 100%

Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), the Student Loan Mortgage Administration (SLMA), and the Federal National Mortgage Association (FNMA) and those insured by the Federal Housing Administration (FHA). The "prudent investor" rule shall apply for a single agency name, as U.S. Government backing is implied rather than guaranteed.

C. Banker's Acceptances-- Maximum of 25%

Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 180 days to maturity or twenty-five percent of the market value of the Pool. No more than five percent of the market value of the Pool may be invested in banker's acceptances issued by any one bank. Only those banker's acceptances eligible for purchase by the Federal Reserve System meet eligibility requirements for investment by the pool. Investments in Banker's Acceptances shall be placed in instruments ranked within the top two rating categories by two of the three largest rating services.

D. Time Deposits-- Maximum of 10%

The City may invest in non-negotiable time deposits collateralized in accordance with the California Government Code, in those banks and savings and loan associations that meet the requirements for

investment in negotiable certificates of deposit. Since time deposits are not liquid, no more than ten percent of the Pool may be invested in this category. All investments in time deposits must be issued by a financial institution whose performance has been reliable, and whose safety rating meets the standards established by the City Treasurer. All investments in time deposits must be properly collateralized in accordance with Section 53652 of the California Government Code. The City Treasurer will periodically monitor, on a discretionary yet diligent basis, the operating performance of all financial institutions holding City time deposits, to ensure compliance to collateralization requirements.

E. Negotiable Certificates of Deposit-- Maximum of 25%

Negotiable certificates of deposit issued by a nationally or State-Chartered Bank or a State or Federal Savings and Loan Association.

F. Commercial Paper-- Maximum of 15%

Commercial Paper ranked "P1" by Moody's Investor Services or "A1" by Standard and Poor's, and issued by a domestic corporation having assets in excess of \$500,000,000 and having an "A" or better rating on its long term debentures as provided by Moody's or Standard and Poor's. Purchases of eligible commercial paper may not exceed fifteen percent (15%) of the market value of the Pool or have a term to maturity which exceeds 270 days. No more than five percent of the market value of the Pool may be invested in commercial paper issued by any one corporation.

G. Local Agency Investment Fund-- Maximum of \$50 million per account

The City may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer for the benefit of local agencies up to the \$50 million maximum permitted by State law.

H. Medium-Term Notes-- Maximum of 30%

Medium-term notes of a maximum of five (5) years maturity 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 "AA" or its equivalent or better by a nationally recognized rating service. No more than thirty percent (30%) of the Pool may be invested in

medium-term notes. No more than fifteen percent (15%) may be invested in notes issued by one corporation.

I. Mutual Funds--

Maximum of 15%

Shares of beneficial interest issued by diversified management companies, otherwise known as mutual funds, as defined in Section 23701(m) of the Revenue and Taxation Code, investing in the securities and obligations as authorized by subdivisions (A) to (L), inclusive, of that section and which comply with the investment restrictions (California Government Code, commencing with Section 53630), companies shall either:

1. Attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or
2. Have an investment adviser registered with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations as authorized by subdivisions (a) to (m), inclusive and with assets under management in excess of Five Hundred Million Dollars (\$500,000,000). The purchase price of shares of beneficial interest, (mutual funds) purchased pursuant to this subdivision shall not include any commission that these companies may charge
3. Prior to selection of investments in any authorized mutual funds, the City Treasurer will exercise due diligence in ensuring that all investments in mutual funds meet the investment qualification requirements of the State Government Code.

No more than 15% of the Pool may be invested in Mutual funds, while no more than 10% of the Pool may be investment in any one Mutual fund.

J. Guaranteed Investment Contract-- Not to Exceed \$5 M Annually

An investment agreement or Guaranteed Investment Contract (G.I.C.) with or guaranteed by a financial institution, the long-term unsecured obligations of which are rated "AA" or better by Moody's and Standard & Poor's at the time of initial investment (the "Provider"). The investment agreement shall be subject to a downgrade provision with at least the following requirements:

If within ten Business Days after the provider's long-term unsecured credit rating has been withdrawn, suspended, other than because of general withdrawal or suspension by Moody's or Standard & Poor's from the practice of rating that debt, or reduced below "AA-" by Standard & Poor's or below "Aa3" by Moody's (these events are called "Rating Downgrades"), the Provider shall give notice to the Fiscal Agent and the City and, within the ten-day period, and for as long as the Rating Downgrade is in effect, shall deliver or transfer in the name of the City to the Fiscal Agent or a third party acting solely as agent therefore (the Holder of Collateral) (other than by means of entries on the Provider's books) federal securities allowed as investments under clause (a) above with aggregate current market value equal to at least 105 percent of the principal amount of the investment agreement invested with the Provider at that time, and shall deliver additional such federal securities as needed to maintain an aggregate current market value equal to at least 105 percent of the principal amount of the investment agreement within three days after each evaluation date, which shall be at least weekly.

If the Provider's long-term unsecured credit rating is reduced below "A1" by Moody's or below "A+" by Standard & Poor's, the Provider shall give notice of the downgrade to the City and the Fiscal Agent, shall, upon five Business Days' written notice to the Provider, withdraw the investment agreement, with accrued but unpaid interest thereon to the date, and terminate such agreement.

Summary of Maximum Percentage Limitations of Investments, by Investment Type

Recognizing maintenance of the minimum investment liquidity requirements as addressed within section III (B) of this Investment Policy, the following summary of maximum percentage limitations by investment instrument is established for the City's total pooled funds portfolio:

<u>Investment Type</u>	<u>Percentage</u>
U.S. Treasury Bills, Notes, and Bonds	0 to 100%
U.S. Government Agency Obligations	0 to 100%
Bankers Acceptances	0 to 25%
Time Certificates of Deposit	0 to 10%
Negotiable Certificates of Deposit	0 to 25%
Commercial Paper	0 to 15%
Local Agency Investment Fund	\$50 million per Account

Medium Term Corporate Notes	0 to 30%
Mutual Funds	0 to 15%
Guaranteed Investment Contracts	Not to exceed \$5 Million annually

Legislative Changes

Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into the Investment Policy and supersede any and all previous applicable language.

VII. UNAUTHORIZED INVESTMENTS

A. Ineligible Investments Prohibited

Ineligible Investments are those that are described herein, including but not limited to common stocks, long term (over five years to maturity) notes and bonds, derivative based instruments, repurchase agreements, reverse repurchase agreements, inverse floaters, futures and options, interest-only strips that are derived from a pool of mortgages, securities with high price volatility or limited marketability, and any maturity that could result in zero interest accrual if held to maturity, are prohibited from use in this Investment Portfolio.

VIII. COLLATERALIZATION

Investments in time certificates of deposits shall be fully insured up to \$100,000 by the Federal Deposit Insurance Corporation or the Federal Savings & Loan Insurance Corporation, as appropriate. Investments in time certificates of deposit in excess of \$100,000 shall be properly collateralized. Section 53652 of the California Government Code requires that the depository pledge securities with a market value of at least 10% in excess of the City's deposit as collateral in government securities, and 50% in excess of the deposit as collateral in mortgage pools. Section 53649 of the California Government Code specifies that the City Treasurer is responsible for entering into deposit contracts with each depository. Investments held with Third Parties holding collateral for the investment shall be properly collateralized in accordance with collateralization requirements of the California Government Code.

IX. QUALIFIED DEALERS AND INSTITUTIONS

The City shall transact business only with nationally or state chartered banks, federal or state savings and loan institutions, and registered primary investment securities dealers. The purchase by the City of any investment other than those purchased directly from the issuer, shall be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporations Code, who is a member of the National Association of Securities Dealers, or a member of a Federally regulated securities exchange, a National or State-Chartered Bank, a Federal or State Association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

To continue to maintain broker/dealers with quality services, expertise, and credit worthiness, the Treasurer may, on a selective basis, expand the approved list of primary dealers to include “qualified regional” dealers.

A “qualified regional” dealer must demonstrate the following requirements:

- The “qualified regional” firm must be able to demonstrate their services and/or expertise is not currently being provided by a primary broker/dealer and will specifically and immediately benefit the City.
- In addition to qualifying under the Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule), the regional dealer does not self clear securities. The clearinghouse through which all transactions are cleared and settled has a minimum investment grade rating of A or better by S&P or Moody.
- The representatives chosen to work with the Treasurer are institutional brokers familiar with and experienced in the specific needs of California public funds. “Familiar” implies an institutional broker who spends the majority of their time and effort working with public funds.

All institutions which the City Treasurer wishes to do business shall be investigated to determine if they are adequately capitalized, have pending legal action against the firm or the individual broker, make markets in the securities appropriate to the City’s needs, and

agree to abide by the conditions set forth in the City of Redondo Beach's Investment Policy.

The City Treasurer shall annually send a copy of the current Investment Policy to all broker/dealers approved to do business with the City. Confirmation is required of broker dealers of receipt of this policy and shall be considered evidence that the dealer understands the City's investment policies and intends to sell the City only appropriate investments authorized by this investment policy.

To further ensure that investments are purchased only through well established, financially sound institutions, the City Treasurer shall maintain a list of financial institutions and brokers approved for the conduct of investment transactions. All financing institutions and brokers who desire to become qualified bidders for investment transactions will be given a copy of the City's Investment Policy, and in turn must supply the City Treasurer with the following:

- Current audited financial statements (within 120 days of Fiscal Year End)
- Depository contracts, as appropriate.
- A copy of the latest FDIC call report or the latest FHLBB report, as appropriate.
- Proof that commercial banks, savings banks, or savings and loan associations are state or federally chartered
- Proof that brokerage firms are members in good standing on a national securities exchange

Commercial banks, savings banks, and savings and loan associations must maintain a minimum net worth to asset ratio of 3% (total regulatory net worth divided by total assets), and must have had a positive net earnings for the last reporting period.

A list of qualified brokers from which the City may purchase investments will be submitted annually by the City Treasurer for approval by the City Council as part of the annual review of investment strategy.

X. PORTFOLIO MANAGEMENT ACTIVITY

The investment program shall seek to augment returns consistent with the intent of this policy, identified risk limitations and prudent investment principals. These objectives will be achieved by use of the following strategies:

Active Portfolio Management-- Through active fund and cash flow management taking advantage of current economic and interest rate trends, the pool yield may be enhanced with limited and measurable increases in risk by extending the weighted maturity of the total pool.

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

Security Swaps-- The City may take advantage of security swap opportunities to improve the overall pool yield. Security swaps will be accomplished with no increase in either credit or market risk factors of the swapped securities. A swap which improves the pool yield may be selected even if the transactions result in an accounting loss. Documentation for swaps will be included in the City's permanent investment file documents.

Competitive Bidding-- To ensure that the purchase of City investments are obtained in the most cost effective and efficient manner, the City Treasurer will encourage competitive bidding for City investment transactions. On an annual basis, the City Treasurer will accept applications from qualified members of the investment broker-dealer community interested in bidding on City investment instruments. The City Treasurer shall establish, on an annual basis, a limited array of qualified broker-dealers to serve the City's investment opportunities. Selection criteria for inclusion on the City's annual list of broker-dealers will be based upon merit, expertise, and performance.

Competitive bidding on individual investment transactions is required on all transactions except those pertaining to "new issue" securities. A new issue security denotes a security that is originally brought to market. Investments in non "new issue" securities, and

the sale of all securities, will require the competitive bid of at least two bidders from the approved list of broker-dealers.

Competitive bidding for security swaps is also suggested, however, it is understood that certain time constraints and broker inventory limitations exist which would not accommodate the competitive bidding process. If a time or inventory constraining condition exists, the pricing of the swap should be verified to current market conditions and documented for auditing purposes.

Details of investment transactions involving competitive bidding will be included in the City Treasurer's quarterly report provided to the City Council and the Budget and Finance Commission.

To ensure the accurate and timely processing, clearance, and settlement of all City Investments, the City Treasurer shall maintain an Investment Procedures Manual. This manual provides current details with respect to operational procedures associated with the placement and clearance of all City Investments. To ensure the accuracy and timeliness of this Investment Procedures Manual, the manual will be reviewed on an annual basis by the City's Independent Auditors.

XI. SAFEKEEPING OF SECURITIES

To protect against fraud, embezzlement, or potential losses caused by collapse of individual securities dealers, all securities owned by the City shall be held in safekeeping by a third party bank trust department, acting as agent for the City under the terms of a custody agreement or PSA agreement (repurchase agreement collateral). All trades executed by a dealer will settle delivery vs. payment (DVP) through the City's safekeeping agent.

Upon purchase, sale, or maturity of investment securities, standing settlement instructions are provided to the servicing banks and broker dealers involved in the transactions. Adherence to these standing settlement instructions ensures accurate and timely settlement of investment security transactions. Standing settlement instructions are restricted in nature, ensuring investment settlements are with established institutions.

XII. INVESTMENT PROCEDURES MANUAL

The City Treasurer will maintain an Investment Procedures Manual. The purpose of this manual is to provide both current operational details, and a central point of reference, with respect to Treasury

Departmental operations associated with the placement, settlement, and clearance of all City Investments. The Investment Procedures Manual serves as an operational compliment to the City's Comprehensive Statement of Investment Policy, which, per Section XV of this Investment Policy, is to be reviewed on an annual basis by both the City Council and the Budget and Finance Commission. The City's Independent Auditors will also be provided with a current copy of both the Statement of Investment Policy and the Investment Procedures Manual on an annual basis.

XIII. INVESTMENT CONTROLS

The City Treasurer will maintain a system of internal investment controls and segregation of responsibilities of investment functions in order to assure an adequate system of internal control over the investment function.

Investment controls shall include the establishment of an annual process of independent review of investment transactions by an external auditor. This review will provide internal control by assuring compliance with investment policies and procedures.

XIV. DELEGATION OF AUTHORITY

The Charter of the City of Redondo Beach and the authority granted by City Council assign the responsibility of investing unexpended surplus cash to the City Treasurer. In the absence of the City Treasurer, the authority to execute investment transactions will be restricted to the Deputy City Treasurer, or other City Treasurer designee, after notification to both the City Council and the Budget and Finance Commission.

XV. POLICY REVIEW

This Investment Policy shall be reviewed annually by both the Budget and Finance Commission and the City Council to ensure its consistency with the overall objectives of preservation of Principal, Liquidity, and Yield, its relevance to current financial and economic trends, and ability to meet the cash flow operational needs of the City. As part of the City Council's annual review of the City's Statement of Investment Policy, and in accordance with the requirements of the California Government Code, the City Council will adopt the City's Statement of Investment Policy, inclusive of amendments, on an annual basis. To ensure that the Statement of Investment Policy meets continued high standards of legal compliance and reporting excellence, the City Treasurer will submit

the Statement of Investment Policy to the Association of Public Treasurers of the United States and Canada for review and recertification no sooner than every three years, nor later than every five years.

XVI. INDEMNIFICATION OF INVESTMENT OFFICIALS

Any investment officer exercising his or her assigned authority with due diligence and prudence, and in accordance with the City's Investment Policy, will not be held personally liable for any individual investment losses or for total portfolio losses.

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GLOSSARY

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.

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

Bond Proceeds – The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These moneys are used to finance the project or purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract.

Broker – A person or firm that acts as an intermediary by purchasing and selling securities for others rather than for its own account.

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 by corporations, with maturities ranging from 2 to 270 days.

County Pooled Investment Funds – The aggregate of all funds from public agencies placed in the custody of the county treasurer or chief finance officer for investment and reinvestment.

Coupon – The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value; a certificate attached to a bond evidencing interest due on a payment date.

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

Dealer – Someone who acts as a principal in all transactions, including underwriting, buying, and selling securities, including from his/her own account.

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.

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

First Tier Securities – Securities that have received short-term debt ratings in the highest category from the requisite nationally recognized statistical-rating organizations (NRSROs), or are comparable unrated securities, or are issued by money market funds, or government securities. [See SEC Rules: Paragraph (a)(12) of rule 2a-7.]

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

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.

Liquidity – An asset that can easily and rapidly be converted 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.

Local Government Investment Pool (LGIP) – Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

Market Value – The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

Maturity – The date on which the principal or stated value of an investment becomes due and payable.

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

Mutual Funds – An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

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.

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").

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.

Prudent Investor Standard – 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 such a situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

Repurchase Agreements – An agreement of one party (for example, a financial institution) to sell securities to a second party (such as a local agency) and simultaneous agreement by the first party to repurchase the securities at a specified price from the second party on demand or at a specified date.

Reverse Repurchase Agreements – An agreement of one party (for example, a financial institution) to purchase securities at a specified price from a second party (such as a public agency) 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 G-37 of the Municipal Securities Rulemaking Board – Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

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

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

Securities Lending Agreement – An agreement of one party (for example, a local agency) to borrow securities at a specified price from a second party (for example, another local agency) with a simultaneous agreement by the first party to return the security at a specified price to the second party on demand or at a specified date. These agreements generally are collateralized and involve a third-party custodian to hold the securities and collateral. Economically similar to reverse repurchase agreement.

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

Trustee, trust company or trust department of a bank – A financial institution with powers to act in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

Underwriter – A dealer that purchases a new issue of municipal securities for resale.

U.S. Treasury Obligations – Debt obligations of the U.S. Government sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less and are sold at a discount. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.

Weighted Average Maturity (WAM) – The average maturity of all the securities that comprise a portfolio, typically expressed in days or years.

Yield – The current rate of return on an investment security generally expressed as a percentage of the securities current price.

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.

CITY OF REDONDO BEACH
STATEMENT OF INVESTMENT POLICY
EXHIBIT A

DEBT ISSUE PROCEEDS INVESTED THROUGH THE CITY TREASURER
AND BANK TRUSTEES

- **Redevelopment Agency of the City of Redondo Beach**
\$6,425,000 Variable Rate Multi-Family Housing Revenue Refunding Bonds; 2008 Series A SEASONS at Redondo Beach
- **Redevelopment Agency of the City of Redondo Beach**
\$8,660,000 1996 Tax Allocation Bonds
South Bay Center Redevelopment Project
- **Redevelopment Agency of the City of Redondo Beach**
\$5,315,000 Mortgage Revenue Refunding Bonds 1993 Series B
- **Public Financing Authority of City of Redondo Beach**
\$7,645,000 Refunding Revenue Bonds, 2008 Series A
South Bay Center Redevelopment Project
- **Redondo Beach Public Financing Authority**
\$2,965,000 2001 Refunding Revenue Bonds
Pier Reconstruction Project
- **Redondo Beach Public Financing Authority**
\$10,335,000 Revenue Bonds, 2004 Series A
Wastewater System Financing Project
- **Redevelopment Agency of the City of Redondo Beach**
\$11,390,000 Multifamily Housing Revenue Refunding Bonds Series
2004 A; Heritage Pointe Apartments

CITY OF REDONDO BEACH
STATEMENT OF INVESTMENT POLICY

EXHIBIT B

**LIST OF QUALIFIED BROKERS FROM WHICH THE CITY
MAY PURCHASE INVESTMENTS**

**Per Section IX “Qualified Dealers and Institutions”
of the City’s Statement of Investment Policy**

Registered Qualified Investment Securities Dealers:

- ❖ Ben Landess First Tennessee Financial
- ❖ Michael Swan Mutual Securities Inc.
- ❖ Ben Finkelstein Cantor Fitzgerald
- ❖ Kelly Devlin Vining Sparks Securities

City Investment Policy Annual Review and Adoption: May 18, 2010

Budget and Finance Commission Review and Approval: May 27, 2010

Redevelopment Agency Annual Review and Adoption June 1, 2010