



# CITY OF LAGUNA HILLS

## 2025 INVESTMENT & PORTFOLIO POLICY



# Investment and Portfolio Policies

## Calendar Year 2025

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# CITY OF LAGUNA HILLS

## INVESTMENT AND PORTFOLIO POLICIES

### 2025

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## I Policy

It is the Policy of the City of Laguna Hills to invest in a manner, which will ensure the safety of public funds by mitigating credit and interest rate risk, and provide sufficient liquidity to meet all operating requirements. The City shall also strive to attain a return on investment that is reasonable given that safety of principal and liquidity are the primary objectives in these policies and yield is secondary. The investment program shall be operated in conformity with federal, state and other legal requirements, including the State of California Government Code Section 53601, et, seq., these policies and written administrative procedures.

## II Scope

This investment policy applies to the investment of all funds of the City and the City of Laguna Hills Public Improvement Corporation, including the following:

General Fund  
Special Revenue Funds  
Capital Projects Funds  
Funds Held Under Trust Indenture

These funds are accounted for in the City's Annual Comprehensive Financial Report.

Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

Investments under the trust indenture will be held separately and made in accordance with the indenture requirements.

## III Objectives

Funds of the City will be invested, by the City Treasurer, or authorized deputies of the Treasurer (hereinafter collectively referred to as "the Treasurer") in accordance with these policies and written administrative procedures. The primary objectives, in priority order, of investment activities shall be:

### 1) Safety

Safety of principal is the foremost objective of the City's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio and the mitigation of credit risk and interest rate risk.

#### a) *Credit Risk*

Credit Risk is the risk of loss due to the failure of the security issuer or backer. Credit Risk may be mitigated by:

- i. limiting investments to the safest types of securities listed under Section VI herein, which shall be limited to those investments backed by the U.S. Government, or an agency thereof, overnight accounts managed by the City's primary bank, the Local Agency Investment Fund (LAIF), and other specific investments described in Section VI;
- ii. diversifying the portfolio to avoid concentration of securities from a specific issuer, except issuers of U.S. Treasury securities, so that the failure of any one issuer will not place an undue financial burden on the City;
- iii. monitoring all of the City's investments on a frequent basis to anticipate and respond accordingly to a significant reduction of creditworthiness of any of the depositories, including the City's primary bank; and
- iv. performing appropriate due diligence to assure the credit worthiness of any portfolio investment made.

**b) *Interest Rate Risk***

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. To reduce interest rate risk, the City shall limit the maximum maturity horizon of the securities that comprise its portfolio, keeping in mind that the longer the maturity horizon, the greater the price volatility. In accordance with the Government Accounting Standards Board reporting requirements, the portfolio could show unrealized gains or losses for any reporting period.

Interest rate risk may be mitigated by:

- i. structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and
- ii. investing operating funds primarily in shorter-term securities.

**2) Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity) and a portion of the portfolio should be invested in readily available funds, to ensure that appropriate liquidity is maintained to meet ongoing obligations.

**3) Yield**

The rate of return on the City's investment portfolio is of secondary importance to the safety and liquidity objectives described above. The City's investment strategy is passive and investments are limited to relatively low-risk securities in anticipation of earning a rate of return throughout

budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

The yield shall be designed to attain an average rate of return through market cycles. Although no "benchmark" rate of return is assumed, the portfolio's yield shall be compared for reporting purposes to LAIF and the 3-month bank CD rate published by the Federal Reserve. These indices are considered benchmarks for lower risk investment transactions and therefore represent a comparable minimum standard for the portfolio's rate of return.

## **IV Standards of Care**

### **1) Prudence**

The City's investment portfolio is subject to public scrutiny and review and should be managed with due care and consideration. The portfolio should be created and maintained with the professionalism and care worthy of the public trust.

The standard of prudence to be applied to the Treasurer shall be the "prudent investor rule", which states, "when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, a trustee (the governing body or Treasurer) shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The Treasurer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

### **2) Ethics and Conflict of Interest**

Employees of the City shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. State law, City statutes, and City personnel and purchasing practices shall be followed to avoid conflict of interest or the appearance thereof. Employees shall disclose any financial interests or personal relationships with any financial institutions, brokers or securities dealers that conduct business within its jurisdiction, and any personal financial/investment positions that could be related to their management of the portfolio. The Treasurer shall be prohibited from doing business with any broker or securities dealer with whom the City does business, with the exception of the City's primary bank for banking services. Employees shall subordinate their personal investment transactions to those of the City, particularly with regard to the time of purchases and sales.

**3) Delegation of Authority**

Authority to manage the City's investment program is delegated to the City Treasurer by Resolution of the City Council of the City of Laguna Hills, California. Management responsibility is hereby delegated to the Finance Director/Deputy Treasurer under the direction of the City Treasurer.

The Deputy Treasurer shall establish written procedures for the operation of the investment program consistent with this investment policy, together with a system of internal controls to regulate the activities of subordinates.

**V Safekeeping and Custody**

**1) Authorized Financial Institutions, Depositories and Brokers/Dealers**

Investment transactions will be undertaken with securities dealers, brokers and depositories authorized to provide investment services. In addition, the City shall maintain a "Qualified Institution" list of approved security broker/dealers selected by creditworthiness, including the minimum capital requirement of \$10 million and at least five years of operation. The City shall conduct periodic evaluations, or whenever deemed necessary, of each financial institution's standing to determine whether it should remain on the "Qualified Institution" listing. Securities dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank, as primary dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

All financial institutions and brokers/dealers who desire to become qualified for investment transactions with the City must supply the following:

- 1) Audited financial statements demonstrating compliance with State and Federal capital adequacy guidelines. Audited financial statements will be submitted annually to the City.
- 2) Proof of National Association of Securities Dealers (NASD) certification, except for counterparties in Certificates of Deposits transactions.
- 3) Proof of State Registration
- 4) Completed broker/dealer questionnaire, except for Certificates of Deposits counterparties.
- 5) Certification of having read and understood and agreeing to comply with the City's Investment Policies, as well as to disclose potential conflicts or risks to public funds that might arise out of business transactions between the firm/depository and the City.
- 6) Evidence of adequate insurance coverage.

In addition, all financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving the City's funds. The supervising officer shall agree to exercise due diligence in monitoring the activities of other officers and subordinate staff members engaged in transactions with the City. Employees of any firm or financial institution offering securities or

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investments to the City shall be trained in the precautions appropriate to public-sector investment and shall be required to familiarize themselves with the City's Investment and Portfolio Policies.

**2) Internal Control**

Treasurer shall establish a system of written internal control policies and procedures, which shall be reviewed annually by the independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions.

**3) Delivery vs. Payment**

All trades where applicable will be executed by delivery vs. payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. A third party custodian or the trust department of the City's primary bank will hold securities. Evidence of safekeeping shall be in the form of safekeeping receipts and monthly statements reporting the securities held by the institution.

**VI Authorized and Suitable Investments**

**1) Investment Types**

Investment of City funds are restricted to the following instruments that shall mature within one year from the time of purchase unless otherwise stated:

- a) U.S. Treasury bills.
- b) U.S. Treasury notes or bonds.
- c) Insured or fully collateralized certificates of deposit issued by a qualified Public Depository Institution of the State of California.
- d) Money market mutual funds whose portfolios consist entirely of U.S. government securities and are rated at the highest letter or numerical rating from at least two of the three largest nationally recognized rating services, or which retain an Investment advisor meeting requirements specified in Government Code Section 53601(k)(2).
- e) State Treasurer's Local Agency Investment Fund.
- f) Overnight Government Securities (U.S. Treasuries, Agencies, and Instrumentalities) Investment Account managed by the City's primary bank.
- g) Overnight Commercial Paper Investment Account managed by the City's primary bank.
- h) Overnight repurchase agreements managed by the City's primary bank where the market value of the securities underlying the repurchase agreement is 102 percent or greater than the value of funds borrowed.
- i) Commercial Paper rated a minimum of "P-1" by Moody's and "A-1" by Standard and Poor's, or equivalent, as provided by a nationally recognized rating agency, maturing not more than 180 days after the date of purchase. The issuer is a corporation organized and operating in the United States with assets in excess of \$500 million.



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- j) Prime Bankers' Acceptances with a maximum term of 270 days and a rating of "P-a" by Moody's and "A-1 +" by Standard and Poor's or equivalent as provided by a nationally recognized rating agency issued within the U.S. by depository institutions.
- k) Investment Trust of California, a Joint Powers Authority, doing business as CalTRUST

In all instances, the City will not purchase the aforementioned instruments by the use of leveraged or margin accounts or by taking short positions in any investment instrument; i.e., selling investments the City does not own.

Investments of funds held under a trust indenture may have maturities up to two years in duration.

**2) Portfolio Diversification**

The City will diversify use of investment instruments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

<b><u>DIVERSIFICATION BY INVESTMENTS</u></b>	<b>Maximum Percent of Portfolio</b>
U.S. Treasury Obligations (bills, notes and bonds)	50%
Certificates of Deposit (CDs) Commercial Banks	50%
Certificates of Deposit (CDs) Savings and Loan	25%
State Treasurer's Local Agency Investment Fund	100%
CalTRUST	100%
Overnight investment accounts managed by City's primary bank	50%
Commercial Paper	10%
Banker's Acceptances	15%
Money Market Mutual Funds	15%

  

<b><u>DIVERSIFICATION BY INSTITUTION/ISSUER</u></b>	<b>Maximum Percent of Portfolio</b>
Certificates of Deposit (CDs) Commercial Banks	25%
Certificates of Deposit (CDs) Savings and Loan	\$250,000 maximum

If at any point the above-stated maximum percentage of portfolio becomes out of compliance, the City Treasurer shall have 60 days to reallocate funds to become compliant.



**3) Maximum Maturities**

Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures as well as considering sizable blocks of anticipated revenue.

**4) Collateralization**

Collateralization will be required on repurchase agreements in order to anticipate market changes and provide a level of security for all funds.

For certificates of deposits greater than \$250,000, collateral will be required at 110% of principal for government securities collateral, and 150% of principal for first mortgage collateral. Certificates of deposits for \$250,000 or less, inclusive of earned interest at maturity may be invested in any FDIC insured commercial bank or savings and loan accounts.

Collateral will always be held by an independent third party, or the trust departments of the City's primary bank. A clearly marked evidence of ownership, such as safekeeping receipt and monthly statement of securities held must be provided to the City.

**VII Competitive Selection of Investment Instruments**

When purchasing or selling securities, the Treasurer shall select the security which provides the highest rate of return within the parameters of these policies and according to the current objectives and needs of the City's portfolio. The Treasurer, at his discretion, may purchase investments through the investment or trust department of the City's primary bank without soliciting proposal forms to other banks or broker/dealers. The City Treasurer may also purchase investments using a competitive process by soliciting proposals from the financial dealers in the "Qualified Institutions" list.

If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments, which meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis will be conducted to determine which maturities would be most advantageous. Selection by comparison to a current market price may be utilized when, in the judgment of the Treasurer, competitive bidding would inhibit the selection process.

**VIII Reporting**

The Treasurer shall submit monthly investment reports to the City Council that summarizes recent market conditions, economic developments and anticipated investment conditions. The report shall summarize the investment strategies employed in the most recent quarter and describe the portfolio in terms of investment securities, maturities, risk characteristics and other pertinent features. The report shall explain the quarter's total investment return and compare the return on LAIF and the 3-month bank CD rate published by the Federal Reserve. The report shall disclose all transactions during the quarter.

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As part of the City's annual audit, the independent auditor shall evaluate investment performance and conduct an operations audit. The purpose of these examinations shall be to obtain suggestions for improved future performance, and to verify that the Treasurer has acted in accordance with this investment policy and written investment procedures.

**IX Annual Investment Policy and Adoption**

The City's investment policy shall be annually reviewed and adopted by resolution of the City Council of the City of Laguna Hills, California. The policy and the related internal control procedures shall be reviewed annually by the City's independent auditors, and any modifications to the policy must be approved by the City Council.

## **Appendix A – Glossary of Terms**

**ACCRUED INTEREST:** Interest earned but not yet received.

**ACTIVE DEPOSIT:** Funds which are immediately required for disbursement.

**AGENCIES:** Federal agency securities and/or government-sponsored enterprises.

**AMORTIZATION:** An accounting practice of gradually decrease/increasing an asset's book value by spreading its depreciation/accretion over a period of time.

**ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR):** The official annual report of the City. It is the set of financial statements for a state, municipality or other governmental entity that comply with the accounting requirements established by the Governmental Accounting Standards Board (GASB). It includes combined statements prepared in conformity with Generally Accepted Accounting Principles (GAAP). It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

**ASKED PRICE:** The price at which securities are offered.

**BANKERS' ACCEPTANCE:** a draft or bill exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**BASIS POINT:** One one-hundredth of one percent (.01%)

**BEAR MARKET:** A period of generally pessimistic attitudes and declining market prices.

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

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

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

**BOND EQUIVALENT YIELD:** The basis on which yields on notes and bonds are quoted.

**BOOK VALUE (COST VALUE):** The purchase price at which a debt security is shown on the holder's balance sheet. Book value is the purchase price less amortization of premium or plus accretion of discount.

**BROKER:** An individual or firm that brings buyers and sellers together for commission.

**BULL MARKET:** A period of time of generally optimistic attitudes and increasing market prices.

**CALLABLES:** Securities that the issuer has the right to redeem prior to maturity.

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**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable. CD's may be eligible for FDIC insurance.

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

**CONSTANT MATURITY TREASURY (CMT):** An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for a given Treasury maturity range.

**COST VALUE (BOOK VALUE):** The purchase price at which a debt security is shown on the holder's balance sheet.

**COUPON:** a) The annual rate of interest that a bond's issuer promises to pay the bondholder on a bond's face value; b) a certificate attached to a bond evidencing interest due on a payment date.

**CREDIT ANALYSIS:** A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

**CURRENT YIELD:** The interest paid on an investment expressed as a percentage of the current price of the security.

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

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

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

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

**DEMAND DEPOSIT ACCOUNT:** Accounts whose balance is available to meet immediate cash needs. Cash withdrawals can be made at any time.

**DERIVATIVES:** (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index(s) or security(s), and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities). Moreover, financial products that are dependent for their value on an underlying financial instrument, a commodity, or an index representing values of groups of such instruments or assets.

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

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

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

**DURATION:** The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serve as the weights; The future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; A bond's zero-coupon equivalent; The fulcrum of a bond's present value cash flow time line.

**FANNIE MAE:** Trade name for the Federal National Mortgage Association (FNMA). See FNMA.

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

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal Government set up to supply credit to various classes of institutions and individuals, e.g., Savings and Loans, small business firms, students, farm cooperatives, and exporters.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits, currently up to \$250,000 per entity; Insurance provided to customers of a subscribing bank, which guarantees deposits to a set limit.

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

**FEDERAL HOME LOAN BANKS (FHLB):** Government sponsored wholesale banks, which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district bank.

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC):** The FHLMC was created under the Federal Home Loan Mortgage Act, Title III of Emergency Home Finance Act of 1970, as a stockholder owned government-sponsored enterprise. **Freddie Mac**, as the corporation is called, is charged with providing stability and assistance to the secondary home mortgage market by buying first mortgages and participation interests and reselling these securities in the form of guaranteed mortgage securities. Although agency obligations are not explicitly guaranteed by the federal government, the rating agencies believe that in the unlikely event of financial difficulties, the federal government will support the agency to the extent necessary to provide for full and timely payment on their securities.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA):** FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). **Fannie Mae**, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases included a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

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**FEDERAL OPEN MARKET COMMITTEE (FOMC):** Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

**FINANCIAL ADVISOR:** A firm of bank that acts in a financial advisory capacity with respect to a new issue of municipal securities pursuant to a written contract.

**FISCAL AGENT/SPONSOR:** a) A fiscal agent, fiscal sponsor, or financial agent is a proxy that manages fiscal matters on behalf of another party. b) A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract. A fiscal agent may assist in the redemption of bonds or coupons at maturity, disbursing dividends, and handling tax issues. For example, the United States Federal Reserve is the fiscal agent of the federal government of the United States.

**FREDDIE MAC:** The trade name for the Federal Home Loan Mortgage Corporation. See FHLMC.

**GINNIE MAE:** The trade name for the Government National Mortgage Association. See GNMA.

**GOVERNMENT ACCOUNTING STANDARDS BOARD:** The independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA):** Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by the full faith and credit of the U.S. Government. **Ginnie Mae**, as these securities are called, are backed by the FHA, VA, or FmHA mortgages. The term “pass-throughs” is often used to describe Ginnie Maes.

**INACTIVE DEPOSITS:** Funds not immediately needed for disbursements.

**INTEREST RATE:** The annual yield earned on an investment, expressed as a percentage.

**INVESTMENT AGREEMENTS:** An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

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

**LOCAL AGENCY INVESTMENT FUND (LAIF):** The Local Agency Investment Fund (LAIF), is a voluntary program created by statute; began in 1977 as an investment alternative for California's local governments and special districts and it continues today under the California State Treasurer's administration. The enabling legislation for the LAIF is Section 16429.1 et seq. of the California Government Code. This program offers local agencies the opportunity to participate in a major portfolio, which invests hundreds of millions of dollars, using the investment expertise of the State Treasurer's Office investment staff at no additional cost to the taxpayer.

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This in-house management team is comprised of civil servants. The Local Investment Advisory Board (LIAB) provides oversight for LAIF. The LAIF is part of the Pooled Money Investment Account (PMIA).

**LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties repurchase/reverse repurchase agreement that establishes each party's in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

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

**MONEY MARKET MUTUAL FUNDS:** Open-ended mutual fund that invests in commercial paper, bankers' acceptances, repurchase agreements, government securities, certificates of deposit, and other highly liquid and safe securities, and pays money market rates of interest. The fund's net asset value remains a constant \$1/share, with the interest rate increasing or decreasing.

**NATIONAL RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO):** A rating organization designated by the SEC as being nationally recognized.

**NEW ISSUE:** Term used when a security is originally "brought" to market.

**OFFER PRICE:** The price at which a broker/dealer/seller will offer securities to an investor. See Asked Price and Bid Price.

**OPEN MARKET OPERATIONS:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC, in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; Sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool. Under the Federal Reserve Act, the Fed uses purchases and sales of government and Federal Agency securities to add to or subtract from commercial bank reserves. Goals are to sustain economic growth, high employment, and reasonable price stability.

**PAPER GAIN OR LOSS:** Term used for unrealized gain or loss on securities being held in a portfolio based on comparison of current market quotes and their original cost. This situation exists, as long as the security is held while there is a difference between cost value (book value) and the market value.

**PERFECTED DELIVERY:** Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

**POOLED MONEY INVESTMENT ACCOUNT (PMIA):** The PMIA began in 1955 and oversight is provided by the Pooled Money Investment Board (PMIB) and an in-house Investment Committee. The Investment Division of the State Treasurer's Office manages the PMIA under statutory authority granted by California Government Code sections 16430 and 16480.4. The Pooled Money Investment Board governs the PMIA. The State Treasurer chairs the Board, which also includes the State Controller and the State Director of Finance. Through PMIA, the State Treasurer invests taxpayers' money to manage the State's cash flow and strengthen the



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financial security of local governmental entities. The PMIA has three primary sources of funds: the State general fund; special funds held by State agencies; and moneys deposited by cities, counties and other entities into the Local Agency Investment Fund (LAIF).

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

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

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

**PURCHASE DATE:** The date in which a security is purchased for settlement on that or a later date.

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

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

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

**REVERSE REPURCHASE AGREEMENT (Reverse REPO):** A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is like a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is borrowing.

**RISK:** Degree of uncertainty of return on an asset.

**SAFEKEEPING:** a) The service provided by banks and trust companies for clients when the bank or trust company stores the securities, takes in coupon payments, and redeems issues at maturity b) A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in a bank's vaults for protection. See custody.

**SEC RULE 15(C)3-1:** See Uniform Net Capital Rule. Also called Net Capital Rule and Net Capital Ratio.

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

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

**SETTLEMENT DATE:** The date at which a trade is cleared by delivery of securities against funds.

**SPREAD:** a) The yield or price difference between the bid and offer on an issue. b) The yield or price difference between issues.

**STRUCTURED NOTES:** Notes issued by Government Sponsored Enterprises (FHLB, FNMA, etc.) and Corporations that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivatives-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options, and shifts in the shape of the yield curve.

**SWAP:** The sale of one issue and the simultaneous purchase of another for some perceived advantage.

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

**TREASURY BONDS:** Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than ten (10) years.

**TREASURY NOTES:** Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two (2) to ten (10) years.

**TRUST COMPANY:** A trust company is a legal entity that acts as a fiduciary or agent on behalf of a person or business, for the purpose of administration, management and the eventual transfer of assets to a beneficial party. The trust company acts as a custodian for trusts, estates, custodial arrangements, asset management, stock transfer, beneficial ownership registration and other related arrangements. See Trustee.

**TRUSTEE:** A financial institution with trust powers that act in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract. See Trust Company.

**U.S. GOVERNMENT AGENCIES:** Instruments issued by various U.S. Government Agencies most of which are secured only by the credit worthiness of the particular agency.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; Also called **SEC RULE 15(C)3-1, Net Capital Rule** and **Net Capital Ratio**. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**YIELD:** The rate of annual income return on an investment, expressed as a percentage. a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. b) **YIELD AT MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

**YIELD CURVE:** Yield calculations of various maturities at a given time to observe spread difference.