



CITY OF CARSON

STATEMENT OF INVESTMENT POLICY

I. Introduction

This policy was developed to formalize the City Treasurer's intent to implement prudent investment practices and to serve the public's best interest in regard to investment management and fiscal operations and accountability. Revisions to this policy shall be executed when needed through compliance to federal or state mandates and annual review and adoption at a regular meeting by the City Council.

II. Policy Statement

The City of Carson in addition to the Carson Successor Agency and Carson Housing Authority, hereafter referred to as "the City", through the adoption of this policy shall invest public funds in a manner that will provide maximum security of the principal invested while meeting the cash flow needs of the City. There is a subordinate emphasis on providing the highest yield (return) on the principal. Further, the City will conform to all applicable Federal, State, and City statutes governing the investment of public funds.

III. Maintain The Public Trust

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

IV. Delegation of Authority

The City Treasurer is the designated investment officer of the City and is responsible for investment management decision and activities. The City Treasurer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the City Treasurer is not present. No deputy/liaison may engage in an investment transaction except as provided under the terms of the policy and procedures established by the City Treasurer and approved by the City Council.

V. Investment Philosophy and Prudence

The standard of prudence to be used in the investment function shall be the “Prudent Investor Standard” and shall be applied in the context of managing the overall portfolio. Securities shall generally be held until maturity, with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- Liquidity needs of the portfolio require that the security be sold.
- Liquidity a security swap would improve the quality, yield, or target duration in the portfolio.

Prudent Investor Standard: When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law. “In consideration of an investment, the safety of the capital as well as income is part of the “prudent person” approach. Investment officers acting in accordance with the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

VI. Scope

The scope of this investment policy applies to all financial assets and funds held by the City. The City Treasurer is authorized to invest the City’s funds as prescribe by California Government Code section 53600. These funds are defined in the City’s Comprehensive Annual Financial Report (CAFR) and include:

- General Revenue Funds
- Special Revenue Funds
- Carson Successor Agency Funds
- Carson Housing Authority Funds
- Trust Funds

VII. Objectives

The investment policy and practices of the City Treasurer for the City of Carson are based upon State law and prudent money management. The primary objectives of this policy are in priority order:

SAFETY OF PRINCIPAL: Safety of principal is the foremost objective of the City. The investment of funds shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To achieve this goal, diversification is required in the portfolio's composition. The investment portfolio will be diversified to avoid unreasonable and avoidable risks regarding specific security types and individual financial institutions. With diversification, failure of any one institution would not unduly harm the City's cash flow.

LIQUIDITY: The investment portfolio shall be structured to match expected cash flow needs. City investments must be able to be easily sold with minimal risk of loss of principal or interest. Therefore, the City's investment portfolio will remain sufficiently liquid to enable the City to meet operating requirements which might be reasonably anticipated.

YIELD: Return on investment becomes a consideration after the basic requirements of investment safety and liquidity are achieved. The City's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles commensurate with the City's investment risk constraints and the cash flow of the portfolio. The City's investment portfolio is designed to operate on a general "buy and hold" premise.

VIII. Authorized Investments and Suitable Investments

It is the policy of the City to diversify its investment portfolio. Invested funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. As part of the Treasurer's diversification strategy, investments will be matched with anticipated cash flow requirements.

Investment of City funds is governed by the California Government Code Sections 53600 seq. Within the context of the limitations, the following investments are authorized as further limited herein:

A. United States Treasury Obligations

100% Maximum

United States Treasury Bill, 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 funds that can be invested in this category. Although a five-year maturity limitation is applicable.

B. Federal Agency Obligations

100% Maximum

The City may invest in federally sponsored agency securities including obligations issued by the 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, Federal Agricultural Mortgage Corporation (Farmer Mac) and the Federal National Mortgage Association (FNMA). The “prudent investor” rule shall apply for a single agency name, as U.S. Government backing is implied rather than guaranteed. There is no percentage limitation of the funds that can be invested in this category. Although a five-year maturity limitation and a 40% maximum per issuer

C. Collateralized Time Deposits (CD)

50% Maximum

The City may invest in non-negotiable time deposits collateralized in accordance with Government Code Sections 53651-52 in those banks that meet the requirements for investment in Certificates of Deposit. 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. The City Treasurer will periodically monitor the operating performance of all financial institutions holding City time deposits. Financial institutions must provide proof of collateralization by submitting third party trustee reports detailing securities that represent collateralization for city accounts on a quarterly basis.

Collateralization will be required for certificates of deposit. The City chooses to limit collateral to the Government Securities. Collateral will always be held by an independent third party. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

D. Banker's Acceptances

10% Maximum

The City may invest in 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 seven days to maturity or thirty percent of the market value of the funds and shall be in compliance with Government Code Section 53601(g).

E. Commercial Paper

15% Maximum

The City may invest in Commercial Paper with a short-term rating of "P-1" by Moody's Investor Services or "A-1" by Standard and Poor's, and issued by a corporation that is organized and operating within the United States with assets in excess of \$500,000,000, and having an "A" or better rating on its long term debentures, if any, as provided by Moody's or Standard and Poor's. Purchases of eligible commercial paper may not exceed fifteen (15%) of the market value of the City's funds nor represent more than ten (10%) from any single issuing corporation. The term to maturity may not exceed 270 days.

F. Negotiable Certificates of Deposits

30% Maximum

The City may invest in negotiable time deposits issued by a financial institution whose performance has been reliable and whose safety rating is four stars or better. The City Treasurer will periodically throughout the year, monitor the operating performance of all financial institutions holding deposits.

G. Certificates of Deposit – Private Placement

30% Maximum

The City may invest in Certificates of Deposit through a selected depository institution that utilizes a private sector entity to assist in the placement of certificates with one or more depository institution in order to ensure that the full amount of the deposit and accrued interest at all times be insured by the Federal Deposit Insurance Corporation or the national Credit Union Administration. These investments are commonly identified as CDARS. In accordance with California Government Code Section 53601.8

H. Local Agency Investment Fund

\$65 Million Per Account

The City may invest in the Local Agency Investment Fund (LAIF) as established by the State Treasurer of California for the benefit of local agencies up to the maximum amount permitted by State law which is currently \$65 million per account.

I. Money Market Funds or Mutual Funds

20% Maximum

The City may invest in shares of beneficial interest issued by diversified management companies that are money market funds (MMFs) registered with the Securities and Exchange Commission under the federal Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.). To be eligible for investment, these companies shall either: (1) attain the highest rating of AAA by at least two nationally recognized statistical rating organizations, one of which must be S&P or Moody's, 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 million. No more than 10% of the surplus funds may be invested in shares of any one money market fund. Allowable investments for this category shall be limited to MMFs which primarily invest only in government securities and repurchase agreements collateralized by government securities.

J. Medium Term Corporate Notes

20% Maximum

The City may invest in debt securities issued by a corporation organized and operating in the United States or a depository institution licensed by the United States or any state and operating within the United States. Local agencies are restricted by California Government Code to invest in corporations rated in the top three note categories by Moody's Investor Service, Inc., and/or Standard and Poor's Corporation, the lowest being a rating category of "A. No more than 5% of surplus funds may be invested in any single issuer. In the event that an issuer is downgraded, an analysis will be prepared showing the City's exposure and to determine whether the security should continue to remain in the portfolio or sold.

K. State/Municipal Bonds

20% Maximum

The City may invest in bonds issued by the State of California or any local agency in the State of California, including bonds payable solely out of the revenues from a revenue producing property owned, controlled or operated by the local agency or by a department, board, agency or authority of the local agency. All bonds must be rated AA or better by Moody's or Standard & Poor's. Due diligence must be performed to ensure that the revenues dedicated to the repayment of the bonds and interest cannot be interrupted.

L. Supranational Obligations

10% Maximum

The city may invest in United States dollar-denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development of the World Bank (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IABD), with maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments must have a minimum rating of AA by Moody's and Standard & Poor's, and shall not exceed 30% of the City's surplus funds, and not more than 5% of the market Value of the portfolio may be invested in notes issued by any one supranational.

IX. Bond Revenue

Bond revenue shall remain separate from the City general fund. These funds shall be invested pursuant to the instructions provided by the bond indenture. Should the bond indenture conflict with this policy, then such investments shall be made in accordance with the bond indenture.

X. Maximum Maturities

To the extent possible the portfolio will attempt to match its investments with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing a potential realized loss. The portfolio will not directly invest in securities maturing more than five (5) years from the date of purchase pursuant to California Code 53601. The weighted average maturity of the portfolio shall not exceed 3 years.

XI. Unauthorized Investments

The following investments are considered to be of a higher risk factor and therefore are prohibited:

- Common Stocks
- Derivative based instruments
- Repurchase agreements
- Reverse repurchase agreements
- Inverse floaters
- Futures and options
- Mortgage-backed-securities

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

Investment Pools / Mutual Funds

The Treasurer shall thoroughly investigate any pooled investment funds, including mutual funds. Investment pools and mutual funds shall be evaluated using the following items:

1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
5. A schedule for receiving statements and portfolio listings.
6. Are reserves, retained earnings, etc. utilized by the pool/fund?
7. A fee schedule, and when and how is it assessed.
8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

Safekeeping and Custody

Security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis or if held with the same company from which the securities are purchased, are held in the name of or under the control of the agency and kept in a legally separate trust department.

Authorized Financial Dealers and Institutions

City shall transact business with financial institutions authorized to provide investment services in the State of California. To further ensure that investments are purchased only through well established, financially sound institutions, A list will be maintained of approved security broker/dealers selected by credit worthiness, adequate capitalization, and an agreement to abide by the conditions set forth in the City of Carson's Investment Policy.

All financial institutions and broker/dealers 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
- A copy of the latest FDIC Call Report or FHLBB Report, as appropriate
- Proof of FINRA certification and good standing
- Proof of State or Federal registration or charter, as appropriate
- Completed broker/dealer questionnaire
- Certification of having read City's investment policy
- Depository contract
- Proof that brokerage firms are members in good standing on a national securities exchange.
- Must be a member of the SIPC- Securities Investors Protection Corporation

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer.

XII. Internal Control

The City Treasurer shall establish appropriate procedures designed to provide proper control over investments and deposits. On an annual basis these controls will be reviewed in conjunction with the annual audit of the City. This review will assure compliance with policies and procedures.

XIII. Ethics and Conflicts of Interest

The City Treasurer and 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 any 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. All participants in the City's investment process shall seek to act responsibly as custodians of the public trust and shall immediately disclose to the City Council any material financial interests in financial institutions that conduct business within their jurisdiction as well as any large personal financial/investment positions that could be related to the performance of the City.

XIV. Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. Given this objective, the benchmark for investments shall reflect the prominent and persistent characteristics of the portfolio over time. The benchmark may be adjusted periodically when material changes take place.

XV. Reporting

The Treasurer shall render monthly investment reports to the City Council. The Treasurer will establish and chair an investment committee which shall include the Finance Director, City Manager and the Investment Advisor to review investments bi-annually. In addition, the Statement of Investment Policy will be provided annually at the beginning of each calendar year.

The monthly reports shall include:

- The Par/Face, Cost and Market value of the investment
- The classification of the investment
- The name of the institution or entity
- The maturity date
- A list of transactions
- A statement of compliance or manner in which the portfolio is not in compliance
- A statement as to the ability of the City to meet its expenditure requirements for the next six months or an explanation of why sufficient money may not be available
- Percentage of the investment portfolio represented by each investment category.

XVI. Investment Policy Review

The investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of SAFETY, LIQUIDITY and YEILD and its relevance to current law, financial and economic trends and to meet the needs of the City of Carson. The City's investment policy shall be adopted by minute resolution by the City council. This policy shall be reviewed annually by the City Council\Carson Successor Agency and Carson Housing Authority and any amendments to the policy must be approved by the City Council.

XVII. Review of Investment Portfolio

The securities held by the City of Carson must be in compliance with Section VII Authorized and Suitable Investments at the time of purchase. Because some securities may not comply with Section VII Authorized and Suitable Investments subsequent to the date of purchase, the Treasurer shall at least quarterly review the portfolio to identify those securities that do not comply. The Treasurer shall report to the City Council, major and critical incidences of noncompliance identified through the review of the portfolio.

Collateralization

Pursuant to Government Code Sections 53652 through 53667, the City requires depositories to post certain types and levels of collateral for public funds above the Federal Deposit Insurance Corporation (FDIC) insurance amounts. The collateral requirement applies to bank deposits and certificates of deposit.

Collateral shall always be held by an independent third party with who the entity has a current written custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of substitution is granted.

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City of Carson Treasurer

GLOSSARY

AGENCIES: Agencies of or sponsored by the Federal government set up to supply credit to various classes of institutions. Examples include Federal Home Loans Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) and Sallie Mae.

BANKERS ACCEPTANCE:

A banker's acceptance (BA) is a short-term debt instrument issued by a company that is guaranteed by a commercial bank.

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

CERTIFICATE OF DEPOSIT: A certificate of deposit (CD) is an instrument offered by a bank that guarantees the depositor a rate of return for a set time period.

COLLATERALIZED TIME DEPOSITS: Banks set aside Treasury securities or other qualified collateral to secure jumbo deposits in excess of the limit covered by the Federal Deposit Insurance Corporation (FDIC).

COMMERCIAL PAPER: Commercial paper is an unsecured, short-term debt instrument issued by a corporation

DELIVERY VERSUS PAYMENT: Delivery of securities with a simultaneous exchange of money.

DIVERSIFICATION: Is a risk management technique that mixes a wide variety of investments within a portfolio.

FEDERAL DEPOSIT INSURANCE CORPORATION: U.S. Corporation insuring deposits in the United States against bank failure.

LIQUIDITY: Describes the degree to which an asset or security can be quickly accessed.

LOCAL AGENCY INVESTMENT FUND (LAIF): A program which 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.

MATURITY: Maturity is the date on which the life of a transaction or financial instrument ends, after which it must either be renewed or it will cease to exist.

MONEY MARKET MUTUAL FUNDS: A money market fund is an investment whose objective is to earn interest for shareholders. A money market fund's portfolio is comprised of short-term, or less than one year, securities representing high-quality, liquid debt and monetary instruments.

NEGOTIALBLE CERTIFICATES OF DEPOSIT: A negotiable certificate of deposit (NCD) is a certificate of deposit with a minimum face value of \$100,000, and they are guaranteed by the bank and can usually be sold in a highly liquid secondary market, but they cannot be cashed in before maturity.

UNITED STATES TREASURY OBLIGATIONS: United States Treasury securities are government debt instruments issued by the United States Department of the Treasury to finance the national debt of the United States. There are four types of marketable treasury securities: Treasury bills, Treasury notes, Treasury bonds.