

# CITY OF MURRIETA INVESTMENT POLICY

## ***I - INTRODUCTION***

The City Council of the City of Murrieta (the “City”) has adopted this Investment Policy (the “Policy”) in order to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the City. All such funds will be invested in accordance with this Policy and with applicable sections of the California Government Code. This Policy replaces any previous investment policy or investment procedures of the City.

## ***II - SCOPE***

This Policy applies to all operating funds of the City. Non-operating funds may be subject to other prevailing documents, such as a governing bond indenture. This policy excludes Employees Retirement and Deferred Compensation Funds., Additional funds that may be created from time to time shall be added to the City’s investment portfolio (the “portfolio”), and managed in accordance with the provisions of this Policy.

All cash shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective average balances relative to the total pooled balance in the portfolio. Investment income shall be distributed to the individual funds not less than annually.

## ***III - OBJECTIVES***

The City’s funds shall be invested in accordance with the City’s Municipal Code and all applicable State statutes and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

1. Preservation of capital and protection of investment principal.
2. Maintenance of sufficient liquidity to meet anticipated cash flows.
3. Attainment of a market value rate of return.
4. Diversification to avoid incurring unreasonable market risks.

## ***IV - DELEGATION OF AUTHORITY***

The management responsibility for the City’s investment program is delegated by the City

Council to the Treasurer pursuant to California Government Code Section 53607 and Section 2.20.030 of the City's Municipal Code. The City Manager serves as the Treasurer. The Treasurer has delegated the authority to conduct investment transactions and to manage the operation of the portfolio to the Administrative Services Director. These officers shall meet regularly to discuss economic and market conditions, and to plan investment strategy to meet the City's fiscal objectives. No person may engage in an investment transaction except as expressly provided under the terms of this Policy.

## ***V - PRUDENCE***

The standard of prudence to be used for managing the City's investments shall be California Government Code Section 53600.3, the prudent investor standard, which states that "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated 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."

The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally without risk and that the investment activities of the City are a matter of public record. Accordingly, the City recognizes that occasional measured losses may be desirable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the City.

If, due to market changes or fluctuations in the size of the City's portfolio, a percentage of portfolio limitation is exceeded, the affected securities may be held to their maturity if the Treasurer believes it is prudent to do so.

The Treasurer and authorized investment personnel exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that the deviations from expectations are reported in a timely fashion to the City Council and appropriate action is taken to control adverse developments.

## ***VI - ETHICS AND CONFLICTS OF INTEREST***

Elected officials and employees involved in the City's investment program shall refrain from personal business activity that could conflict with proper execution of the investment program or that could impair or create the appearance of an impairment of their ability to make impartial investment decisions. These individuals shall disclose to the City Manager any material interests they have in financial institutions that conduct business with the City and they shall subordinate their personal investment transactions to those of the City.

The Treasurer and the Finance Director shall file a Statement of Economic Interests each year pursuant to California Government Code Section 87203 and regulations of the Fair Political Practices Commission.

## **VII - AUTHORIZED SECURITIES AND TRANSACTIONS**

All investments and deposits of the City shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686, except that, pursuant to California Government Code Section 5903(e), proceeds of bonds and any moneys set aside or pledged to secure payment of the bonds may be invested in securities or obligations described in the ordinance, resolution, indenture, agreement, or other instrument providing for the issuance of the bonds. Any revisions or extensions of the above referenced code sections will be assumed to be part of this Policy immediately upon being enacted. However, in the event that amendments to these sections conflict with this Policy and past City investment practices, the City may delay adherence to the new requirements when it is deemed in the best interest of the City to do so. In such instances, after consultation with the City's attorney, the Treasurer will present a recommended course of action to the City Council for approval.

The City has further restricted the eligible types of securities and transactions as follows:

A. **United States Treasury** bills, bonds, and notes with a final maturity not exceeding five years from the date of trade settlement. There is no limitation as to the percentage of the portfolio that can be invested in this category.

B. **Federal Agency Obligations** for which the faith and credit of the United States are pledged for the payment of principal and interest and which have a final maturity not exceeding five years from the date of trade settlement. There is no limitation as to the percentage of the portfolio that can be invested in this category, however, no more than 20% of the City's total portfolio shall be invested in the combination of Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC) mortgage-backed securities.

C. **Federal Instrumentality** (government sponsored enterprise) debentures, discount notes, callable securities, step-up securities, and mortgage-backed securities (including FNMA and FHLMC) with a final maturity not exceeding five years from the date of trade settlement. There is no limitation as to the percentage of the portfolio that can be invested in this category, however, no more than 20% of the City's total portfolio shall be invested in the combination of GNMA, FNMA, and FHLMC mortgage-backed securities.

D. **Repurchase Agreements** with a final termination date not exceeding one year collateralized only by U.S. Treasury obligations, Federal Agency securities, or Federal Instrumentality securities listed in items A, B and C above with the maturity of the collateral not exceeding ten years. For the purpose of this section, the term collateral shall mean

purchased securities under the terms of the City's approved Master Repurchase Agreement. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the funds borrowed. Collateral shall be held in the City's custodian bank, as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily.

Repurchase Agreements shall be entered into only with broker/dealers who are recognized as Primary Dealers by the Federal Reserve Bank of New York or with firms that have a primary dealer within their holding company structure. The Treasurer shall maintain a copy of the City's approved Master Repurchase Agreement along with a list of the broker/dealers who have an executed same.

The aggregate investment in Repurchase Agreements shall not exceed 20% of the portfolio.

**E. Prime Commercial Paper** with a maturity not exceeding 270 days from the date of trade settlement with the highest ranking or of the highest letter and number rating assigned by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the conditions in either sub-paragraph 1) or sub-paragraph 2) below:

- 1) The entity shall (a) be organized and operating in the United States as a general corporation, (b) have total assets in excess of \$500,000,000, and (c) have debt other than commercial paper, if any, that is rated at least "A" or the equivalent or higher by a NRSRO.
- 2) The entity shall (a) be organized within the United States as a special purpose corporation, trust, or limited liability company, (b) have program-wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond and (c) have commercial paper that is rated at least "A-1" or the equivalent or higher by a NRSRO.

Not more than 5% of the portfolio may be invested in the commercial paper and medium-term notes of any issuer and the aggregate investment in commercial paper shall not exceed 25% of the portfolio.

**F. Eligible Bankers Acceptances** issued by Federal Deposit Insurance Corporation (FDIC) insured commercial banks, rated at least "A-1" or the equivalent by a NRSRO with maturities not exceeding 180 days from the date of trade settlement. If issuers have senior debt outstanding, it shall be rated at least "A" or the equivalent by a NRSRO. No more than 5% of the portfolio shall be invested in bankers acceptances of any one commercial bank, and the aggregate investment in bankers acceptances shall not exceed 30% of the portfolio.

**G. Medium-Term Notes** 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. Medium-Term Notes with a final maturity not exceeding three years from the date of trade settlement must be rated at least “A” or the equivalent by a NRSRO at the time of purchase. Medium-Term Notes with a final maturity not exceeding five years from the date of trade settlement must be rated at least “AA” or the equivalent by a NRSRO at the time of purchase. . Not more than 5% of the City’s total portfolio shall be invested in the Medium-Term Notes of any one corporation and the aggregate investment in Medium-Term Notes may not exceed 30% of the portfolio.

**H. State of California’s Local Agency Investment Fund (LAIF)**, pursuant to California Government Code Section 16429.1.

**I. Money Market Funds** registered under the Investment Company Act of 1940 that are (1) “no-load” (meaning no commission or fee shall be charged on purchases or sales of shares); (2) have a constant net asset value per share of \$1.00; (3) invest only in the securities and obligations authorized in the applicable California statute; and (4) have a rating of “AAA” or the equivalent by at least two NRSROs. Investment in any individual fund may not exceed 10% of the fund, and the aggregate investment in any combination of Money Market Funds and Mutual Funds shall not exceed 20% of the portfolio.

**J. Mutual Funds** registered under the Investment Company Act of 1940 that are (1) “no-load” (meaning no commission or fee shall be charged on purchases or sales of shares); (2) invest only in the securities and obligations authorized in the applicable California statute; and (3) have a rating of AAA or the equivalent by at least two NRSROs. The aggregate investment in Mutual Funds shall not exceed 5% of the portfolio. In addition, investment in any individual fund may not exceed 10% of the fund, and the aggregate investment in any combination of Mutual Funds and money market funds shall not exceed 20% of the portfolio.

Securities that have been downgraded to a level that is below the minimum ratings described herein after the securities were initially purchased, may be sold or held at the City’s discretion.

The foregoing list of authorized securities and transactions shall be strictly interpreted. Any deviation from the list must be preapproved by the City Council.

### ***VIII - INVESTMENT DIVERSIFICATION***

The City shall diversify the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy, the securities market, and the City’s anticipated cash flow needs.

### ***IX - PORTFOLIO MATURITIES AND LIQUIDITY***

To the extent possible, investments shall be matched with anticipated cash flow

requirements and known future liabilities. The weighted average final maturity of the portfolio should not exceed three years, and the City will not invest in securities maturing more than five years from the date of trade settlement, unless the City Council has by resolution granted authority to make such an investment at least three months prior to the date of the investment.

The following table of maturities and percentage allocations is an example of structuring the portfolio to help maintain a range of diversified maturities:

<b><i>Maturity Range</i></b>	<b><i>Suggested Percentage</i></b>
one day to 180 days	10 to 50%
181 days to 360 days	10 to 30%
one year to two years	10 to 20%
two years to three years	0 to 20%
three years to five years	0 to 20%
over five years	Council authorization required

## ***X - SELECTION OF BROKERS/DEALERS***

The Treasurer shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the City to purchase securities only from those brokers and the firms they represent. Each approved broker/dealer must possess an authorizing certificate from the California Commissioner of Corporations as required by Section 25210 of the California Corporations Code. The firms they represent must:

1. be recognized as Primary Dealers by the Federal Reserve Bank of New York or have a primary dealer within their holding company structure, or
2. report voluntarily to the Federal Reserve Bank of New York, or
3. qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

Each authorized broker/dealer shall be required to submit and annually update a City approved Broker/Dealer Information Request form that includes the firm's most recent financial statements.

The City may purchase Commercial Paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item E of the Authorized Securities and Transactions section of this Policy.

## ***XI – COMPETITIVE TRANSACTIONS***

All investment transactions shall be conducted competitively with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid or offering prices shall be recorded.

If the City is offered a security for which there is no other readily available competitive offering, then the Treasurer will document quotations for comparable or alternative securities.

## ***XII - SAFEKEEPING AND CUSTODY***

The Treasurer shall select one or more banks to provide safekeeping and custodial services for the City, in accordance with the provisions of Section 53608 of the California Government Code. Approved custodian banks shall have an average Highline Financial rating of 20 or better (on a scale of zero to 99 with 99 being the highest quality) for the four most recent reporting quarters. A safekeeping agreement shall be executed with each custodian bank prior to utilizing that bank's safekeeping services. Custodian banks will be selected on the basis of their ability to provide services for the City's account and the competitive pricing of their safekeeping related services.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery-versus-payment basis. All securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by a City approved custodian bank, its correspondent bank or its Depository Trust Company (DTC) participant account.

## ***XIII - PORTFOLIO PERFORMANCE***

The portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the portfolio shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio's weighted average effective maturity. When comparing the performance of the portfolio, its rate of return will be computed net of all fees and expenses.

## ***XIV - REPORTING***

Quarterly, the Treasurer shall submit to the City Council a report of the investment earnings and performance results of the portfolio. The report shall include the following information:

1. Investment type, issuer, date of maturity, par value and dollar amount invested in all securities, and investments and monies held by the City;
2. A description of the funds, investments or programs under the management of contracted parties, including securities lending programs;
3. A market value as of the date of the report (or the most recent valuation as to assets not valued monthly) and the source of the valuation;
4. Overall portfolio yield based on historical cost;
5. Weighted average maturity;
6. A statement of the portfolio's compliance with this Investment Policy or an explanation for non-compliance; and
7. A statement of the ability or inability to meet expenditure requirements for six months, as well as an explanation of why money will not be available if that is the case.

### ***XV - POLICY REVIEW***

This Investment Policy shall be adopted by resolution of the City Council annually. It shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield and diversification and its relevance to current law and economic trends. Any amendments to this Investment Policy shall be forwarded to the City Council for approval.