

CITY OF HUNTINGTON BEACH
STATEMENT OF INVESTMENT POLICY

2026



TABLE OF CONTENTS

Page No.

I.	Policy Statement	3
II.	Scope	3
III.	Prudent Investor Standard	4
IV.	Investment Authority	4
V.	Objectives	4
VI.	Authorized Investments	5
VII.	Investment Credit Rating Restrictions	8
VIII.	Investment Diversification, Maturity and Duration	8
IX.	Prohibited Transactions	9
X.	Collateralization	10
XI.	Ethics and Conflict of Interest	10
XII.	Authorized Broker/Dealers and Financial Institutions	10
XIII.	Performance Standards	11
XIV.	Performance Evaluation	11
XV.	Custody and Safekeeping	12
XVI.	Internal Controls	12
XVII.	Disaster Recovery Program	12
XVIII.	Investment Policy Review	13
XIX.	Glossary	14

PURPOSE

The City of Huntington Beach Investment Policy (“Policy”) provides the structure for the prudent investment of the funds of the City of Huntington Beach (“City”) in order to maximize the efficiency of the City’s cash management system while meeting the City’s daily cash flow demands.

I. POLICY STATEMENT

The Policy is prepared in accordance with California State law and based on prudent money management practices. The primary goal is to invest public funds in a manner that will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to meet daily cash flow demands of the City and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

II. SCOPE

This Policy governs the investment of funds deposited in the City Treasury with the exception of employee’s pension funds (invested separately by CalPERS), funds invested separately by the City Treasurer (“Treasurer”) under bond indenture agreements, and funds invested separately by the Treasurer or trustees under other City Council (“Council”) approved agreements (e.g., Retiree Medical Trust, Post-Employment Section 115 Trust, Supplemental Pension Trust). Detailed descriptions of these funds are provided in the City’s annual financial report with summary descriptions listed below for reference. It is the City’s policy to pool funds for banking and investment purposes to provide efficiencies and economies of scale. Pooled account banking and investing provides for greater use of funds by allowing for more efficient cash management, reduced transaction costs, and greater market access. This Policy is more restrictive than State law in certain areas.

- 1. General Fund:** Accounts for activity not required to be accounted for in another fund.
- 2. Special Revenue Funds:** Financial resources that are restricted or committed to expenditure for specified purpose other than debt service or capital projects. These funds include Air Quality, Development Impact, Disability, Drainage, Strand Parking, Gas Tax, Housing, Parks, Automation, and Traffic Impact/Congestion.
- 3. Capital Project Funds:** Financial resources that are restricted, committed, or assigned to expenditure for major capital outlays, including capital projects and facility construction/acquisition. These funds include Affordable Housing, Parking, Sewer, Technology, and Lease Capital.
- 4. Enterprise Funds:** Financial resources that are restricted, committed, or assigned to expenditure for business-type activities. These funds include Water, Sewer Service, Refuse, and Hazardous Materials Service.
- 5. Trust and Agency Funds:** Financial resources held by the City in a fiduciary capacity for the benefit of others. These funds include Low/Moderate Income Housing, Community Facilities Districts, and West Orange County Water Board.
- 6. Debt Service Funds:** Financial resources that are restricted, committed, or assigned to expenditure for principal and interest. These funds include the Public Financing Authority.
- 7. Infrastructure Funds:** Financial resources for capital and operating expenditures related to certain designated infrastructure projects. The transfer amount is calculated annually based on the City Charter requirement for 15% of General Fund reserves on a rolling 5-year average be designated for infrastructure.

8. **Capital Improvement Reserve Funds:** Financial resources established by the fund balance policy for construction/improvement of City infrastructure, usually identified in the City's 5-year capital improvement plan.
9. **Any New Fund Created by Legislative Body:** All future funds created by a legislative decision unless specifically exempted from investment by the Treasurer.

III. PRUDENT INVESTOR STANDARD

The Treasurer, as a fiduciary of public funds, adheres to the "prudent investor" standard as stated in California Government Code Section 53600.3. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the City 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 City. Within the limitation of this Section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law.

The Treasurer and authorized designees, as investment officers acting in accordance with written procedures and the 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 to Council in a timely fashion and appropriate actions are taken to mitigate adverse developments. All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

IV. INVESTMENT AUTHORITY

The authority to invest City funds rests with the Council. In accordance with California Government Code Section 53607, Council delegates investment authority to the Treasurer for one year and that delegation must be renewed annually. Adoption of this Policy constitutes delegation of investment authority to the Treasurer for the next year unless revoked in writing. Daily responsibility for investment of City funds resides with the Treasurer, and the Treasurer may appoint deputies to assist in carrying out this delegated authority in their absence pursuant to California Government Code Section 41006. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities and procedures of subordinate officials.

By City Charter, the Treasurer is custodian of all public City funds. Council members may each appoint one City resident to serve on an Investment Advisory Board ("Board") to advise the Treasurer and Council on the City's investment program. The Board, generally consisting of 7 members, will review the investment portfolio for compliance with the Policy on a quarterly basis and prepare an Annual Report. All Board meetings are publicly held in compliance with the Brown Act and meeting minutes available to the public online.

V. OBJECTIVES

Investments are made under the terms of conditions of California Government Code Section 53600. The primary investment objectives, presented in their absolute order of priority, are:

1. SAFETY

Safety of principal is the foremost investment objective. City investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. The Treasurer shall

seek to preserve principal and minimize capital losses by mitigating credit risk and market risk as follows:

- a) **Credit Risk:** Defined as an issuer's ability and willingness to repay interest and principal. Credit risk also applies to the overall market perception of the financial strength and capacity of the issuer. Credit risk shall be mitigated by diversifying the portfolio among issues and issuers so that the failure of any one issue or issuer would not unduly harm the City's cash flow or result in a significant loss of income or principal.
- b) **Market Risk:** Defined as the risk of market value fluctuations due to changes in the general level of interest rates. As the City's investment portfolio must remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated, the investment portfolio shall be structured such that securities mature as much as possible in conjunction with major cash flows to minimize the need to sell securities prior to their maturity. Occasional market losses on individual securities may occur with portfolio management and they must be considered within the context of overall investment return.

2. LIQUIDITY

Liquidity is essential to the safety of principal. The investment portfolio will maintain sufficient liquidity to meet all daily operating requirements based on reasonably anticipated cash flow needs. Since all possible cash demands cannot be anticipated, the portfolio will invest primarily in securities with active secondary and resale markets.

3. YIELD/RETURN

Yield refers to the objective of attaining a market rate of return commensurate with the risk profile and cash flow characteristics of the portfolio throughout budgetary and economic cycles. The City funds entrusted to the Treasurer will be primarily a passively managed portfolio with core investments limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Return refers to the actual amount earned. As noted in Government Code Section 53601.6, securities issued by, or backed by, the United States government can result in zero or negative interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates.

VI. AUTHORIZED INVESTMENTS

The City is authorized to invest in specific types of securities per the California Government Code. The Treasurer may place orders for executing transactions through periodically selected broker/dealers, banks, or counterparties, consistent with legal requirements and this Policy. All securities must be United States dollar denominated and investments not specifically listed below are expressly prohibited.

1. U. S. TREASURY SECURITIES

United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest.

2. U. S. GOVERNMENT AGENCY SECURITIES

Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise.

3. COMMERCIAL PAPER

Commercial Paper of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a Nationally Recognized Statistical Rating Organization (“NRSRO”). Split ratings are not allowable.

The entity that issues the commercial paper shall meet either of the following conditions:

- a) Has total assets in excess of five hundred million dollars (\$500,000,000), is organized and operating within the United States as a general corporation and has debt other than commercial paper, if any, that is rated “A” or higher by a NRSRO.
- b) Is organized in the United States as a special purpose corporation, trust, or limited liability company, has program-wide credit enhancements including, but not limited to overcollateralization, letters of credit or a surety bond, and has commercial paper that is rated “A-1” or higher, or the equivalent, by an NRSRO.

4. CERTIFICATES OF DEPOSIT

Certificates of deposit issued by a nationally or state-chartered bank, savings association, or a federal association (as defined by Section 5102 of the California Financial Code), or by a federally licensed or state-licensed branch of a foreign bank.

5. REPURCHASE AGREEMENTS

Purchase of securities by the Treasurer pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the City by book entry, physical delivery, or 3rd party custodial agreement. The term of a repurchase agreement shall not exceed one year and have capital of not less than \$500,000,000. The securities must be of the same issuer, description, issue date and maturity. To participate in repurchase agreements, a master repurchase agreement must be completed and signed by all parties involved, with the City maintaining a signed copy of the agreement. Repurchase agreements are required to be collateralized by securities or cash.

6. MONEY MARKET MUTUAL FUNDS

Shares of beneficial interest issued by diversified management companies that are money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.), which only invest in direct obligations in U.S. Treasury bills, notes, and bonds, U.S. Government Agencies, Municipal Debt, and repurchase agreements with a weighted average maturity of 60 days or less. Funds that do not maintain a constant Net Asset Value will be disallowed. Approved money market mutual funds shall meet either of the following criteria:

- a) Attained the highest ranking or the highest letter and numerical rating provided by at least two NRSROs.
- b) Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than 5 years of experience managing money market mutual funds with assets under management in excess of \$500,000,000.

7. STATE AND COUNTY INVESTMENT POOLS

The Treasurer may invest in the Local Agency Investment Fund (“LAIF”), a special fund established by the State Treasurer under California Government Code Section 16429.1. Due to its pooled nature, LAIF is an allowable investment for local agencies even though some individual investments would not be allowed normally as direct City investments. LAIF has no final stated maturity and will be reported as a one-day maturity. The City is permitted to invest in LAIF up to the maximum established by California Government Code.

Orange County Treasury Pooled Funds (“OCTPF”) is a pooled fund managed by the County

Treasurer for County and non-County entities under California Government Code Section 27130. OCTPF is maintained for the purpose of benefitting from economies of scale through pooled investment activities. OCTPF has no final stated maturity and will be reported as a one-day maturity. Historically, cities like Huntington Beach were permitted to invest excess funds not required for immediate use into the OCTPF. However, the Orange County Board of Supervisors recently decided to close the OCTPF to non-County investments so the City is not currently permitted to invest.

8. MUNICIPAL DEBT

Such instruments are defined as being issued by a local or state agency, including:

- a) Bonds issued by the local agency, including bonds payable solely out of the reserves from a revenue-producing property owned, controlled, or operated by the local agency or department, board, agency, or authority of the local agency.
- b) Registered state warrants, treasury notes, or bonds of this state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the state or department, board, agency, or authority of the state.
- c) Bonds, notes, warrants, or other evidences of indebtedness of a local agency in the state, 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.

9. MEDIUM-TERM NOTES

All corporate and depository institution debt securities 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.

10. JOINT POWERS AUTHORITY

Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7, which invests in the securities and obligations as authorized under 53601 (a-o) and that comply with the investment restrictions of California Government Code Sections 53600-53610 and Section 53630. CCLASS, CalTRUST and CAMP are Local Government Investment Pools operating as Joint Powers Authorities which are sponsored by California Cities and Counties.

The Treasurer shall be required to investigate all local government investment pools prior to investing and perform quarterly reviews while the funds are invested in the pool. The analysis shall include but is not limited to the following pool characteristics: eligible investment securities, investment policy/objectives, interest calculations/distributions, securities pricing, maximum maturity, REPO collateral/counter-party, securities safeguarding/settlement processes, pool/fund size, deposit/withdrawal limits, program audits, and expense ratios/fee schedules.

11. SUPRANATIONAL SECURITIES

United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of 5 years or less, and eligible for purchase and sale within the United States.

VII. INVESTMENT CREDIT RATING RESTRICTIONS

Credit ratings will be applied at the time of purchase of a security and monitored for changes while owned. A downgrade subsequent to purchase in a security's credit rating will not constitute a Policy violation. Securities downgraded below the minimum acceptable rating must be reviewed for possible sale by the Treasurer. The credit ratings referenced in this policy must be assigned by one of the following NRSROs: Standard & Poor's Corporation (S&P), Moody's Investors Service, Inc. (Moody's), or Fitch Ratings (Fitch).

All investments must have the minimum ratings required below by at least one NRSRO unless listed in the investment type exceptions in this section:

- a) Short-Term: A-1 for Moody's, P-1 for S&P, and F1 for Fitch
- b) Long-Term: A3 for Moody's, A- for S&P, and A- for Fitch

Exceptions to the general minimum rating requirements include:

- a) Money Market Mutual funds require the highest ranking or the highest letter and numerical rating provided by at least two NRSROs (Aaa for Moody's, AAA for S&P, and AAA for Fitch)
- b) Supranationals require the 3rd highest ranking or 3rd highest letter and numerical rating provided by at least one NRSRO (Aa2 for Moody's, AA for S&P, and AA for Fitch)

The following investments are not subject to general minimal rating requirements:

- a) U.S. Treasury and Government Agencies Obligations
- b) Repurchase Agreements
- c) LAIF and Joint Powers Authority

VIII. INVESTMENT DIVERSIFICATION, MATURITY, AND DURATION

Investment diversification is required to minimize the risk of loss resulting from assets of a specific maturity, issuer, or class of securities. Diversification strategies shall be established by the Treasurer and periodically reviewed. All issuer or investment type diversification limits are upon settlement date. Should any investments exceed these limits post-purchase (e.g., portfolio fluctuations), the affected securities may be held to maturity at the Treasurer's discretion based in part on the expected time length that the portfolio will remain unbalanced.

1. MATURITY

The maximum maturity of any investment purchased will be 5 years absent Council granting express authority to make that investment specifically or as part of an investment program. The settlement date will be used as the date of purchase for measuring maturity limitations. Not more than 25% of City funds may be invested in securities with maturities in excess of 4 years.

2. ISSUER CONCENTRATION

Only debt of approved issuers may be purchased. The following diversification limits will also apply at the time of a security's purchase:

Investment Type	California Government Code Limits			Policy Limits		
	Investment	Issuer	Maturities	Investment	Issuer	Maturities
U.S. Treasury Securities	100%	None	5 Years	100%	None	5 Years
U.S. Government Agency Securities	100%	None	5 Years	100%	None	5 Years
Commercial Paper	40%	10%	1 Year	40%	10%	1 Year
Certificates of Deposit	30%	None	5 Years	30%	10%	3 Years
Repurchase Agreements	100%	None	1 Year	100%	None	90 Days
Money Market Mutual Funds	20% of Agency Funds	10% of Agency Funds	N/A	15% of Agency Funds	10% of Agency Funds	N/A
Local Agency Investment Fund	\$75M per account	N/A	N/A	\$75M per account	N/A	N/A
Municipal Debt	100%	None	5 Years	100%	10%	5 Years
Medium-Term Notes	30%	None	5 Years	30%	10%	5 Years
Joint Power Authority	100%	None	N/A	25%	None	N/A
Supranational Securities	30%	None	5 Years	30%	None	5 Years

IX. PROHIBITED TRANSACTIONS

All permitted investments shall conform in all respects with this Policy and applicable provisions of the California Government Code, as may be amended from time to time. Investments prohibited by the Government Code are expressly not permitted.

The Treasurer must approve in writing as soon as possible any investment transactions that violates a credit risk criterion or an allocation limitation. Thereafter, action shall be taken by the Treasurer to correct such matter as soon as practical. If an investment is in compliance at the time of purchase, a subsequent violation resulting from a change in market values will not constitute a violation of that restriction.

The following transactions are prohibited even if permitted under the California Government Code or prior version of this Policy:

- a) Borrowing for investment purposes (“Leverage”).
- b) Reverse Repurchase Agreements, as defined by California Government Code Section 53601(j)(3-4).
- c) Structured Notes (e.g. inverse floaters, leveraged floaters, structured certificates of deposit, equity-linked securities, event-linked securities). This includes all floating-rate, adjustable-rate or variable-rate securities in which a change in interest rates or other variables that can reasonably be foreseen to occur during their term would result in their market value not returning to par at the time of each interest rate adjustment.

Simple “floating rate notes,” whose periodic coupon adjustment is based on a short-term (1 year or less) rate index (e.g., Treasury bills, federal funds, prime rate, SOFR) and which have a reasonable expectation of maintaining a value of par at each interest rate adjustment through final maturity, are exempt from this definition. Additionally, U.S. Treasury and Agency zero coupon bonds or callable securities that otherwise meet the quality, maturity, and percent limitations assigned to their respective security category, are exempt from this section.

- d) Structured Investment Vehicles (SIV).
- e) Derivative Securities (e.g., options, futures, swaps, swap options, spreads, straddles, caps, floors, collars).
- f) Bankers Acceptances.
- g) Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV).

X. COLLATERALIZATION

California banks and other depository institutions are required to secure City deposits by pledging government securities with of a value of 110% of principal and accrued interest under California Government Code or first trust deed mortgage notes have a value of 150% of the City's total deposits. Collateral must be held by an independent 3rd party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to the City and retained. No collateral substitutions may be made without prior approval of the Treasurer.

To anticipate market changes and provide a level of security for all repurchase agreement transactions, the market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less frequently than daily. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall comply with the market value requirement if the value of the underlying securities is brought back up to 102% no later than the next business day. The Treasurer may waive the collateral requirement for deposits fully-insured by the Federal Deposit Insurance Corporation.

XI. ETHICS AND CONFLICT OF INTEREST

In addition to state and local statutes relating to conflicts of interest, the Treasurer and all persons involved in the investment process shall refrain from personal business activity that could create a conflict with proper execution of the investment program or could impair their ability to execute impartial investment decisions. The Treasurer and all persons involved in the investment process shall disclose by April 1st of each calendar year to the applicable oversight body any material financial interests or investment positions in financial institutions, broker dealers, and vendors that conduct business with the City or any large personal financial/investment positions that could be related to the City's performance (Statement of Economic Interests from the California Fair Political Practices Commission).

XII. AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

The Treasurer will maintain a list of broker/dealers and financial institutions authorized to provide investment and/or depository services and products that are authorized to provide investment services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws. The Treasurer will perform an annual review of the financial condition and registrations of such qualified providers to determine whether they should remain on the approved list and require annual audited financial statements to be on file for each firm. The Treasurer shall endeavor to open an application period every 2 years for new broker/dealers and financial institutions to provide investment services. All applicants will be required to complete a detailed questionnaire and the Treasurer's Office will review any applicant who submits a questionnaire. The City shall annually send a copy of the current Policy to all financial institutions and broker/dealers approved to do business with the City and they shall notify the City in writing of receipt of the Policy.

As feasible, all money belonging to or in custody of a local agency, including money paid to the Treasurer or other officials to pay the principal, interest, or penalties on bonds, shall be deposited for safekeeping in national or state-chartered banks, savings associations, federal associations, credit unions, or federally-insured industrial loan companies in California ("Relevant Institutions") selected by the Treasurer or other official having legal custody of the money. To be eligible for receiving local agency money, any Relevant Institution shall have received an overall rating of not

less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California’s communities, including low-income and moderate-income neighborhoods (Section 2906 of Title 12 of the United States Code). California Government Code sections 53601.5 and 53601.6 shall apply to all investments acquired pursuant to this section.

Any permitted investment, not purchased directly from an approved issuer, shall be purchased either from a primary or regional securities broker/dealer qualifying under SEC Rule 15C3-1 (Uniform Net Capital Rule) and meeting the following requirements:

- a) Experience in institutional/public fund trading practices,
- b) Familiarity with California Government Code related to City approved investments,
- c) A California office with a minimum 5 years of operation, and
- d) Submission of a Broker/Dealer Application with related eligibility documents, including: (a) current audited annual financial statement, (b) U4 form, (c) proof of state registration, (d) proof of FINRA certification, and (e) compliance certification with the City’s Policy.

XIII. PERFORMANCE STANDARDS

The investment strategy is to manage the portfolio with less risk than a comparable benchmark index while using economies of scale to administer the program at a reasonable cost. The Treasurer will make best efforts to observe, review, and react to changing conditions that affect the portfolio. Although the Treasurer may employ certain indices (e.g., 12-month moving average of the interpolated 18-month Constant Maturity Treasury rate) to gauge the fund rates of return, such indices shall be used solely for comparative purposes and do not constitute a guarantee of actual fund performance. Benchmarks will be reviewed periodically based upon changes in market conditions or cash flow requirement changes.

The Treasurer’s investment strategy is to hold purchased securities until maturity, but changing economic conditions, interest rates, and credit quality may dictate a sale in advance to minimize market/credit risks or enhance yield. Such sales should consider the short-term and long-term portfolio impact as the core objective of the Treasurer is to preserve principal. Portfolio performance shall be measured on a total return basis and calculated consistent with the Global Investment Performance Standards to ensure fair, transparent, and comparable reporting of results.

XIV. PERFORMANCE EVALUATION

The Treasurer shall submit a quarterly report (“Report”) to the Council, City Manager, Chief Financial Officer, and Board within 45 days of the end of the quarter under California Government Code Section 53646 to provide information on the investment portfolio’s performance and include other information outlined in State law as noted below. This Report shall be placed on the Council agenda for public review. The Treasurer shall also provide a monthly report of investment transactions for public review under California Government Code Section 53607 as required when the Treasurer is delegated the investing and reinvesting authority.

This Report shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment programs and include:

- a) Type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and monies held.
- b) Description of any of the funds, investments, or programs, that are under the management of

contracted parties, including lending programs.

- c) Current market and book value as of the date of the report and source of the valuation with respect to securities held by the local agency, and under management any outside party that is not a local agency or the LAIF.
- d) Portfolio compliance to the Policy or manner in which the portfolio is not in compliance. Percentage of portfolio represented by each investment type.
- e) Statement denoting the ability of the local agency to meet its pool expenditure requirements for the next 6 months or an explanation why sufficient money shall or may not be available.

The Treasurer shall provide financial information on investments for disclosure in the City's Annual Financial Report, in accordance with Government Accounting Standards Board Statements 31, 40, 72 and 84.

XV. CUSTODY AND SAFEKEEPING

All City investments shall have the City of Huntington Beach as the registered owner and all interest and principal payments/withdrawals shall indicate the City of Huntington Beach as the payee. All securities except insured certificates of deposit, money market funds, Joint Powers Funds, OCTPF, or LAIF will be held with a qualified financial institution contracted by the City or 3rd party custodian with a separate custodial account. The 3rd party custodian shall be required to issue a safekeeping statement to the Treasurer listing the specific instrument, rate, maturity, and other pertinent information. All agreements and statements will be subject to annual external independent auditor review. All securities shall be acquired by the safekeeping institution on a delivery-versus-payment basis. Repurchase agreements may be delivered by book entry, physical delivery, or 3rd party custodial agreement consistent with the California Government Code. The transfer of securities to the counter-party bank's customer book entry account may be used for book entry delivery. The Treasurer or designee shall require a Broker Trade confirmation for all trades.

XVI. INTERNAL CONTROLS

The Treasurer shall be responsible for all investment transactions undertaken and shall establish a system of written internal controls designed to prevent loss of public funds due to fraud, employee error, misrepresentation by 3rd parties, unanticipated market changes, or imprudent actions by employees. The Treasurer shall develop and maintain written administrative procedures for the investment program's operations related to safekeeping, repurchase agreements, wire transfer agreements, collateral/depository agreements, banking service contracts, and other investment/banking-related activities consistent with this Policy. Such procedures shall include specific duties of authorized personnel responsible for assisting in executing investment transactions.

No investment personnel may engage in investment transactions except under the Policy terms and procedures established by the Treasurer. All agreements, statements, and investment trade packets will be subject to review annually by external independent auditors in conjunction with their audit. Account reconciliations and verifications of general ledger balances related to investment purchases/maturations and interest allocations to fund balances shall be performed by the Finance Department.

XVII. DISASTER RECOVERY PROGRAM

The Disaster Plan includes critical phone numbers and addresses of key treasury and investment personnel, as well as currently approved bankers and broker/dealers. The Disaster Plan is distributed to key City and investment personnel. In the event the Treasurer or authorized staff is unable to invest the portfolio, the Treasurer has an agreement with the custodian for a daily sweep of uninvested cash with the custody bank into a money market mutual fund. Until normal operations of the Treasurer's office have been restored, the limitations on the size of an individual issuer and the percentage restrictions by investment type would be allowed to exceed those approved in this Policy and would be required to be reported to the Council in a timely manner.

XVIII. INVESTMENT POLICY REVIEW

This Policy shall be reviewed annually by the Treasurer, Board, and Council annually for modification. By virtue of a resolution, the Council shall acknowledge the receipt and filing of this Policy statement for the year. Any California law that further restricts allowable maturities, investment type, percentage allocations, or any other provision of this Policy will, upon effectiveness, be incorporated into this Policy and supersede any and all previous applicable language.

XIX. POLICY GLOSSARY

This Glossary is for general reference purposes only and does not constitute an exhaustive or exclusive list of terms and definitions applicable to this Policy. The definitions included herein do not modify any of the terms of this Policy or applicable law.

ACCREDITED INVESTOR: Defined in the Code of Federal Regulations (CFR) 230.501 (a)(9) as any entity, including a government body that owns “investments,” as defined in the CFR 270.2A51 - 1(b)(7)(i), such as cash and cash equivalents, for investment purposes under the Investment Company Act in excess of \$5 million.

ACCRUED INTEREST: Interest that is earned but unpaid since the last interest payment date.

AMORTIZATION: Systematic reduction of amount owed on debt issue through periodic principal payments.

ANNUAL COMPREHENSIVE FINANCIAL REPORT: The City’s official annual report that includes combined statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles. The Report includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, introductory materials, and a detailed statistical section.

ASSET BACKED SECURITIES: Securities issued by corporations organized and operating in the United States supported by pools of installment loans or leases or by pools of revolving lines of credit.

AVERAGE LIFE: Average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

ASKED PRICE: Price at which securities are offered from a seller.

BANKERS ACCEPTANCE: High-grade negotiable money market instruments issued primarily to finance international trade. These are time drafts or bills of exchange in which a bank accepts as its financial responsibility to pay the principal at maturity even if the importer does not. These are effectively bank obligations collateralized by goods being shipped between an exporter and an importer.

BASIS POINT: A basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes, and other fixed-income securities.

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

BID PRICE: The price at which a buyer offers to buy a security.

BOOK ENTRY: The Federal Reserve system by which most money market securities are “delivered” to an investor’s custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment), such that the owners of these securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment, plus accrued interest and amortization of any premium or discount.

BROKER: An individual/institution that brings buyers and sellers together and is compensated for his/her service in the form of a commission. The broker does not take a position.

CALL PRICE: The price at which an issuer may redeem a bond prior to maturity. The price is usually a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

CALL RISK: Risk to a bondholder that a bond may be redeemed prior to maturity.

CALLABLE BONDS: Bonds that may be redeemed by the issuing company prior to the maturity date.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a capital asset.

CERTIFICATE OF DEPOSIT: A deposit of funds at a bank for a specified period of time that earns interest at a specified rate as evidenced by a certificate.

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Securities pledged by a financial institution to secure deposits of public monies.

COMMERCIAL PAPER: Short-term unsecured promissory notes issued by corporations to raise working capital. These instruments are purchased at a discount or at par value with interest bearing.

COUPON: Annual rate of interest that a bond's issuer agrees to pay the bondholder on the bond's face value or certificate attached to a bond evidencing interest due on a payment date.

CREDIT QUALITY: The measurement of a bond issuer's financial strength. This measurement helps an investor understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Credit quality ratings are provided by nationally recognized statistical rating organizations.

CREDIT RISK: Risk that an issuer will default in payment of a security's interest or principal.

CREDIT WATCH: Indicates a company's credit is under review and credit ratings are subject to change. Credit watches can be positive (possible upgrade) or negative (possible downgrade).

CURRENT YIELD: Annual income from an investment divided by the current market value (rather than the investor's cost). Current yield is unrelated to the return the investor will earn if the security is held to maturity.

CUSTODIAN: Bank or financial institution that keeps custody of stock certificates and other assets.

DEALER: Acts as a principal in all transactions, buying and selling for their own account.

DELIVERY VERSUS PAYMENT (DVP) : Delivery of securities with simultaneous exchange of money for the securities, in contrast to a delivery versus receipt with an exchange of a signed receipt for the securities.

DERIVATIVE: Security whose interest rate of principal amount may vary based upon market index or combination of market indices and may include a leveraging factor. Derivative can also be a financial contract based on notional amounts whose value is derived from an underlying index or security.

DISCOUNT: Difference between par value of bond and the bond's cost when the cost is below par. Some short-term securities (e.g., Treasury bills, Bankers Acceptances) are known as discount securities that sell at a discount from par and return par value to the investor at maturity without additional interest. Other securities that have fixed coupons trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity or quality.

DIVERSIFICATION: An investment principle designed to spread the risk in a portfolio by dividing investments among different sectors, industries, and companies to avoid excessive

exposure to any one source of risk.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the average maturity of an investment portfolio using each investment's maturity weighted by the size of that investment.

DURATION: A measure of the timing for cash flows (e.g., interest payments, principal repayment) to be received from a given fixed-income security. The duration calculation is based on term to maturity, coupon rate, and yield to maturity. Duration is a useful indicator of price volatility for interest rate changes.

FEDERAL CREDIT AGENCIES: Federal government agencies established to supply credit to various classes of institutions (e.g., small businesses, students, farmers, exporters).

FEDERAL DEPOSIT INSURANCE CORPORATION: Federal agency that insures bank deposits (current limit of \$250,000).

FEDERAL FUNDS RATE: Interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. A target rate is set by the Federal Open Market Committee.

FEDERAL OPEN MARKET COMMITTEE: The committee that sets 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. The committee consists of 7 members of the Federal Reserve Board and 5 of the 12 Federal Reserve Bank Presidents.

FEDERAL RESERVE SYSTEM: United States centralized banking system created by Congress with a 7-member Board of Governors that has supervisory powers over the 12 Federal Reserve banks and 6,000 member banks. National banks are required to be members and state-chartered banks may join if they meet certain requirements.

FIXED-INCOME SECURITIES: Securities that return a fixed income over a specified period.

FLOATING RATE NOTE (ADJUSTABLE RATE NOTE): A debt security whose interest rate is reset periodically (e.g., monthly, quarterly, annually) based on a market index (e.g. Treasury bills, Secured Overnight Financing Rate).

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

INTERNAL CONTROLS: A structure designed to provide reasonable assurance that an entity's assets are protected from loss, theft, or misuse. Reasonable assurance recognizes that the control cost should not exceed the benefits likely to be derived and the cost/benefit valuation requires estimates and management judgment.

INVESTMENT COMPANY ACT OF 1940: Federal legislation that created the standard regulating investment companies (e.g., mutual funds) in areas like advertising, promotion, performance reporting requirements, and securities valuations.

LEVERAGE: Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUIDITY: The speed and ease with which an investment can be converted to cash without a substantial loss of value. A security is said to be liquid in the money market if the spread between bid and ask prices is narrow and a reasonable size can be done at those quotes.

LOCAL AGENCY: County, city, city and county (including a chartered city or county), school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

LOCAL GOVERNMENT INVESTMENT POOL: Aggregate of all funds from political subdivisions that are placed in the State Treasurer's custody for investment and reinvestment.

MARK-TO-MARKET: Market valuation for every security in a portfolio used in determining Net Asset Value.

MARKET RISK: The risk that changes overall market conditions or interest rate may adversely affect current market prices.

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

MASTER REPURCHASE AGREEMENT: Written contract between the parties of a repurchase agreement establishing each party's rights in all current and future transactions until termination of the contract by either party. A master agreement will often specify the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: Date upon which an investment's principal or stated value becomes due and payable.

MEDIUM TERM NOTES: Debt securities issued by a corporation or depository institution with a maturity ranging from 9-60 months. The term refers to the time it takes for an obligation to mature. Medium Term Notes include corporate debt securities originally issued for maturities longer than 5 years that have now fallen in the 5-year maturity range.

MONEY MARKET: The market in which short-term debt instruments (e.g., Treasury bills, discount notes, commercial paper, bankers acceptances) are issued and traded.

MONEY MARKET MUTUAL FUNDS: Investment company that pools money from investors and invests in a variety of short-term money market instruments.

MUNICIPAL DEBT: Bonds, notes, and other securities issued by a state, municipality, or county.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION: Firms that review and assess the creditworthiness for the issuers of debt securities or money market instruments and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB). The primary rating agencies are Standard & Poor's, Moody's Investor Services, and Fitch, but any credit rating agency to the Securities and Exchange Commission for registration as a Nationally Recognized Statistical Rating Organization.

NEGOTIABLE CERTIFICATES OF DEPOSIT: High-grade unsecured obligations of a bank or financial institution bought at par value with the promise to pay face value plus accrued interest at maturity. Negotiable certificates of deposit pay a higher interest rate than standard certificates of deposit.

NET ASSET VALUE: Per-share valuation of a mutual fund based on total assets minus total liabilities.

NON-CALLABLE: Bond that cannot be called at the option of the issuer.

OFFER PRICE: Price asked by a seller of securities.

PAR VALUE: Principal that must be paid at maturity, normally quoted in \$1,000 increments per bond.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank as a physical certificate with supporting documents evidencing the investment (as opposed to book entry delivery).

PORTFOLIO: A group of securities held by an individual or institutional investor.

PREMIUM: Difference between par and market value of a bond when the market value is above par.

PRICE RISK: Risk that the price of a bond sold prior to maturity will be less than the price at which the bond was originally purchased.

PRIMARY DEALER: Banks and securities brokerages authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its execution of Federal Open Market Operations.

PRIME RATE: Base rate that banks use in pricing commercial loans to their best and most creditworthy customers.

PRINCIPAL: Face value or par value of an investment.

PROSPECTUS: Legal document that must be provided to any prospective purchaser of a new securities offering registered with the Securities & Exchange Commission. The prospectus can include information on the issuer, the issuer's business, proposed use of proceeds, experience of the issuer's management, and certain certified financial statements.

QUALIFIED INSTITUTIONAL BUYER: Defined in CFR Section 230.144A as a class of investors that can be conclusively assumed to be sophisticated and in little need of the protection afforded by the Securities Act's registration provisions. They must own and invest on a discretionary basis at least \$100 million in securities of issuers not affiliated with the Buyer.

RATE OF RETURN: Yield obtainable on a security based upon its purchase price and current market price, which may be the amortized yield to maturity on a bond the current income return.

RATING OUTLOOK: Potential direction of credit rating assigned by a NRSRO for a specific company.

REINVESTMENT RISK: The risk that coupon or other payments cannot be reinvested at the same rate as the initial investment.

RECEIVABLES-BACKED SECURITIES: Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans. These securities are owned by the issuer but placed with a trustee for the benefit of the investor.

RECEIVABLE PASS-THROUGH CERTIFICATE: A debt obligation backed by a portfolio of receivables, normally issued by a bank or financial institution. The interest and principal of the obligation is paid out of the cash flow generated by the receivables portfolio.

REFUNDED BOND: A bond secured by an escrow fund that is sufficient to pay off the entire issue of bonds at the next call date (pre-funded) or maturity (escrowed to maturity).

REGISTERED STATE WARRANT: Short-term obligation of a state governmental body issued in anticipation of revenue.

REPURCHASE AGREEMENT: Purchase of securities on a temporary basis with the seller's simultaneous agreement to repurchase the securities back at a later date at a specified price that includes interest for the buyer's holding period.

SAFEKEEPING: Storage and protection of a customer's financial assets, valuables, or documents by banks for a fee. This services is provided by an institution serving as Agent or Custodian where control is delegated by the customer.

SECONDARY MARKET: Market created for purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION: The federal agency created by Congress

responsible for supervising and regulating the securities industry to protect investors.

SINKING FUND: Money accumulated on a regular basis in a separate custodial account used to redeem debt securities or preferred stock issues.

SUPRANATIONAL SECURITIES: United States dollar denominated senior unsecured obligations issued or unconditionally guaranteed by entity formed from two or more central governments with the purpose of promoting economic development for the member countries. Examples include the International Bank for Reconstruction and Development, International Finance Corporation, and the Inter-American Development Bank. These Securities must be eligible for purchase and sale within the United States under this Policy.

TOTAL RETURN: Sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period: (Price appreciation) + (Dividends paid) + (Capital gains) = Total Return.

TRADE DATE: Date and time corresponding to an investor's commitment to buy or sell a security.

U. S. GOVERNMENT AGENCY SECURITIES: Debt securities issued by United States Government sponsored enterprises and federally related institutions. These government agencies include: Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Farm Credit Banks, and Tennessee Valley Authority.

U.S. TREASURY SECURITIES: Securities issued by the Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds. Treasury bills are non-interest-bearing discount securities issued by the U.S. Treasury to finance the national debt. Treasury notes are interest-bearing obligations of the U.S. Treasury and having initial maturities ranging from 2-10 years from date of issue. Treasury bonds are interest-bearing obligations issued by the U.S. Treasury with maturities of more than 10 years from date of issue.

UNIFORM NET CAPITAL RULE (NET CAPITAL RULE): Securities and Exchange Commission requirement that member firms and non-member broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15:1. Indebtedness covers all money owed to a firm (including margin losses and commitments to purchase securities) and liquid capital includes cash and assets easily converted into cash.

VOLATILITY: Degree of fluctuation in the price and valuation of securities when economic conditions or interest rates change.

WEIGHTED AVERAGE MATURITY: Average maturity of all securities that comprise a portfolio.

WHEN ISSUED: Conditional transaction in which an authorized new security has not been issued. All when issued transactions are settled when the actual security is issued.

YIELD: Annual rate of return on a debt investment computed as though held to maturity expressed as a percentage. Income Yield is obtained by dividing the current dollar income by the current market price for a security. Yield to 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 bond purchase date to bond maturity date.

YIELD TO MATURITY: Rate of return earned on an investment considering all cash flows and timing factors including interest earnings, discounts, and premiums above par.

ZERO-COUPON BONDS: Bond which represents ownership of a single coupon or principal

payment due on a U.S. Treasury bond. These bonds mature at face value at a specified date in the future and make no payments until that date. The bonds always sell at a discount from face value.