



Town of Atherton

CITY COUNCIL STAFF REPORT – CONSENT AGENDA

**TO: HONORABLE MAYOR AND CITY COUNCIL
GEORGE RODERICKS, CITY MANAGER**

FROM: ROBERT BARRON III, FINANCE DIRECTOR

DATE: MARCH 19, 2014

**SUBJECT: ACCEPTANCE OF TREASURER’S REPORT FOR THE SECOND
QUARTER ENDED DECEMBER 31, 2013 AND PROPOSED CHANGES
TO THE INVESTMENT POLICY**

RECOMMENDATION

Accept the Treasurer’s Report for the second Quarter Ended December 31, 2013 and accept recommended changes to the Investment Policy from Finance Committee.

BACKGROUND

The 2nd Quarter Treasurer’s report, as of December 31, 2013 is attached.

As part of the Treasurer’s Report, a detail cash and investment balance by Fund is also attached. The total cash and investments for the Town is \$23,709,188. Of the total amount, \$11,340,799 is listed as “non-restricted.” Although this amount is listed as “non-restricted,” it is not all available for spending. While “non-restricted” funds are not legally restricted, the Town does have obligations and unfunded liabilities it must meet with non-restricted funds. The Treasurer’s Report provides an update on the cash and investment position of the Town of Atherton.

Cutwater Asset Management (formerly MBIA) provides non-discretionary investment advisory services to the Town for investments. Staff is working in conjunction with Cutwater to ensure cash and investments adhere to our goals of safety, liquidity, and yield. To facilitate the trading and safekeeping of securities, Wells Fargo Bank serves as the safe-keeping agent for the Town.

As part of the Town’s investment processes, staff annually reviews the Investment Policy and makes any recommended changes through the Finance Committee to the City Council.

Recently, staff presented recommended changes to the Investment Policy to the Finance Committee. Staff felt that investment diversification is a key component of the Policy and, in consultation with Cutwater Asset Management, provided the Finance Committee with recommended changes. The Finance Committee reviewed the recommendations with staff and representatives from Cutwater Asset Management at their last meeting.

After review and discussion, the following changes to the Investment Policy are recommended:

- Federal Instrumentality – No more than 25% of the Town’s total portfolio shall be invested in any one instrumentality issuer. Statute currently puts no limit on any one agency.
- Medium Term Notes – Rating for agency changed from AAA to AA. No more than 5% shall be invested per issuer.
- Negotiable & Non-negotiable Certificates of Deposit – Added investment in Neotiable and Non-Negotiable Certificate of Deposits. Recommendation is that no more than 10% of the Town’s Portfolio can be invested in CD’s. All CD purchases will follow the FDIC \$250,000 limit.
- Repurchase Agreements – The maturity of the collateral changed from ten years to five years.
- Changing the reporting of the investment report to quarterly

Provided is the redline investment policy with the above changes. The Finance Committee and staff propose these changes and recommend approval.

FISCAL IMPACT

None

ATTACHMENTS

Treasurer’s Report for Third Quarter Ended December 31, 2013
Redline Investment Policy

**Town of Atherton
Quarterly Treasurer's Report
Portfolio Summary
December 31, 2013**

	Par Value	Market Value	Book Value	% of Portfolio
Cash In Bank (Schedule A)	2,175,569	2,175,569	2,175,569	9.2%
Investments (Schedule B)	21,394,992	21,457,463	21,533,620	90.8%
Total Cash and Investments	23,570,561	23,633,031	23,709,188	100%

The above investments are consistent with the Town's Statement of Investment Policy and are allowable under current legislation of the State of California. Investments are selected using safety, liquidity, and yield as the criteria. The Town has sufficient cash flow to cover anticipated expenditures through the next six months.



Robert Barron, Finance Director

3/3/2014

Date

**Town of Atherton
Quarterly Treasurer's Report
Portfolio Details - Cash In Bank
December 31, 2013**

Schedule A

<u>Name of Depository</u>	<u>Investment Type</u>	<u>Reconciled Bank Balance</u>
Wells Fargo	General Account	559,151
Wells Fargo	Wells Fargo Trust MMF-Cash	<u>1,616,418</u>
Total		<u><u>2,175,569</u></u>



Cutwater Asset Management
1900 Sixteenth Street, Suite 200
Denver, CO 80202
Tel: 303 860 1100
Fax: 303 860 0016

Treasurer's Report Schedule B

TOWN OF ATHERTON

Report for the period December 1, 2013 - December 31, 2013

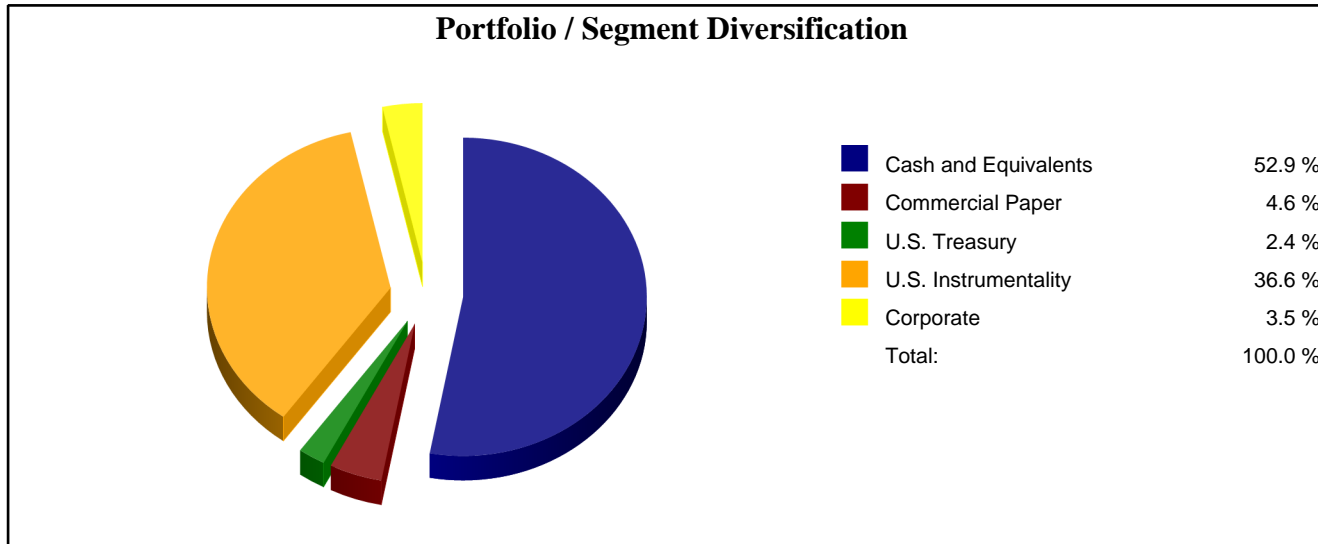
Please contact Accounting by calling the number above or email camreports@cutwater.com with questions concerning this report.

(This report was prepared on January 8, 2014)

**Town of Atherton
Recap of Securities Held
December 31, 2013**

	Historical Cost	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Weighted Average Final Maturity (Days)	Weighted Average Effective Maturity (Days)	% Portfolio/Segment	Weighted Average Yield *	Weighted Average Market Duration (Years)
Cash and Equivalents	11,394,991.91	11,394,991.91	11,394,991.91	0.00	1	1	52.92	0.26	0.00
Commercial Paper	997,617.29	998,699.02	999,106.25	407.23	117	117	4.63	0.38	0.00
U.S. Treasury	511,835.94	506,142.95	511,367.00	5,224.05	943	943	2.38	1.01	2.52
U.S. Instrumentality	7,876,929.50	7,839,394.25	7,801,553.75	(37,840.50)	948	817	36.58	0.66	2.19
Corporate	752,245.00	751,291.29	750,443.75	(847.54)	1,225	1,225	3.49	1.06	3.28
Total	21,533,619.64	21,490,519.42	21,457,462.66	(33,056.76)	418	370	100.00	0.46	0.97

* Weighted Average Yield is calculated on a "yield to worst" basis.



**Town of Atherton
Activity and Performance Summary
for the period December 1, 2013 - December 31, 2013**

<u>Amortized Cost Basis Activity Summary</u>	
Beginning Amortized Cost Value	19,994,486.86
Additions	
Contributions	1,488,031.25
Interest Received	12,968.75
Accrued Interest Sold	0.00
Gain on Sales	0.00
Total Additions	1,501,000.00
Deductions	
Withdrawals	0.00
Fees Paid	1,000.00
Accrued Interest Purchased	0.00
Loss on Sales	0.00
Total Deductions	(1,000.00)
Accretion (Amortization) for the Period	(3,967.44)
Ending Amortized Cost Value	21,490,519.42
Ending Fair Value	21,457,462.66
Unrealized Gain (Loss)	(33,056.76)

<u>Detail of Amortized Cost Basis Return</u>				
	Interest Earned	Accretion (Amortization)	Realized Gain (Loss)	Total Income
Current Holdings				
Cash and Equivalents	2,754.18	0.00	0.00	2,754.18
Commercial Paper	0.00	325.06	0.00	325.06
U.S. Treasury	631.80	(202.16)	0.00	429.64
U.S. Instrumentality	8,192.71	(3,940.72)	0.00	4,251.99
Corporate	812.51	(149.62)	0.00	662.89
Total	12,391.20	(3,967.44)	0.00	8,423.76

<u>Annualized Comparative Rates of Return</u>			
	Twelve Month Trailing	Six Month Trailing	For the Month
Fed Funds	0.11 %	0.09 %	0.08 %
Overnight Repo	0.08 %	0.06 %	0.05 %
3 Month T-Bill	0.05 %	0.04 %	0.05 %
6 Month T-Bill	0.07 %	0.06 %	0.07 %
1 Year T-Note	0.13 %	0.12 %	0.13 %
2 Year T-Note	0.31 %	0.35 %	0.34 %
5 Year T-Note	1.17 %	1.47 %	1.58 %

<u>Summary of Amortized Cost Basis Return for the Period</u>		
	Total Portfolio	Excl. Cash Eq.
Interest Earned	12,391.20	9,637.02
Accretion (Amortization)	(3,967.44)	(3,967.44)
Realized Gain (Loss) on Sales	<u>0.00</u>	<u>0.00</u>
Total Income on Portfolio	8,423.76	5,669.58
Average Daily Historical Cost	20,666,814.42	10,142,790.25
Annualized Return	0.48%	0.66%
Annualized Return Net of Fees	0.42%	0.54%
Annualized Return Year to Date Net of Fees	0.35%	0.48%
Weighted Average Effective Maturity in Days	370	785

**Town of Atherton
Activity and Performance Summary
for the period December 1, 2013 - December 31, 2013**

<u>Fair Value Basis Activity Summary</u>		
Beginning Fair Value		19,997,595.71
Additions		
Contributions	1,488,031.25	
Interest Received	12,968.75	
Accrued Interest Sold	0.00	
Total Additions		1,501,000.00
Deductions		
Withdrawals	0.00	
Fees Paid	1,000.00	
Accrued Interest Purchased	0.00	
Total Deductions		(1,000.00)
Change in Fair Value for the Period		(40,133.05)
Ending Fair Value		21,457,462.66

<u>Detail of Fair Value Basis Return</u>			
	Interest Earned	Change in Fair Value	Total Income
Current Holdings			
Cash and Equivalents	2,754.18	0.00	2,754.18
Commercial Paper	0.00	408.75	408.75
U.S. Treasury	631.80	(2,344.00)	(1,712.20)
U.S. Instrumentality	8,192.71	(35,326.55)	(27,133.84)
Corporate	812.51	(2,871.25)	(2,058.74)
Total	12,391.20	(40,133.05)	(27,741.85)

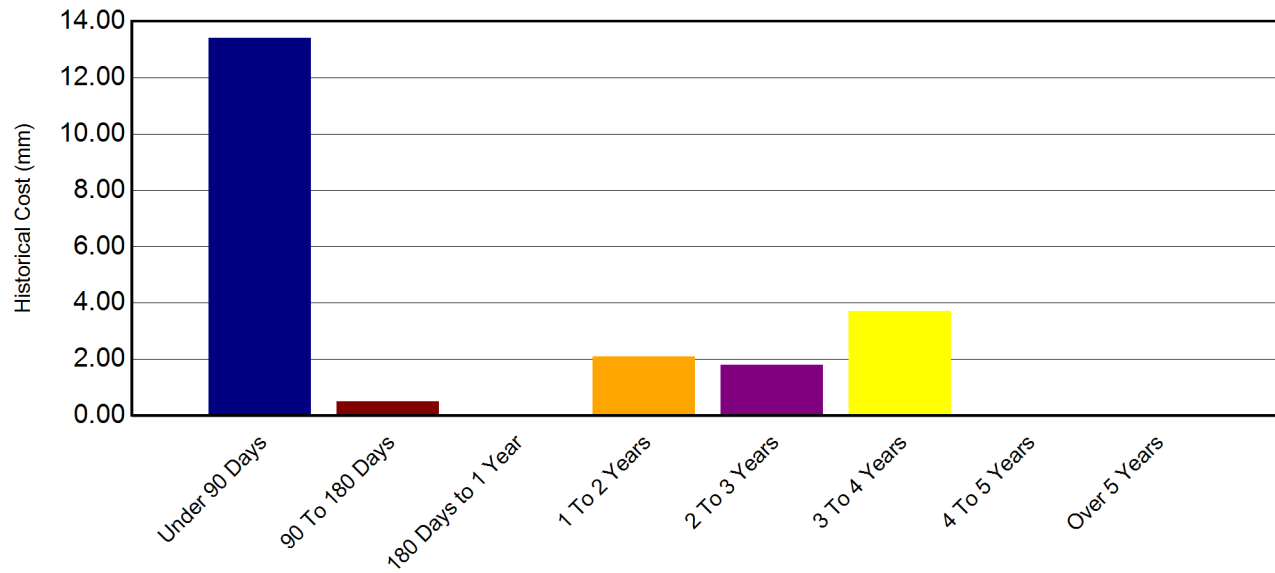
<u>Annualized Comparative Rates of Return</u>			
	Twelve Month Trailing	Six Month Trailing	For the Month
Fed Funds	0.11 %	0.09 %	0.08 %
Overnight Repo	0.08 %	0.06 %	0.05 %
3 Month T-Bill	0.09 %	0.10 %	0.12 %
6 Month T-Bill	0.16 %	0.16 %	0.35 %
1 Year T-Note	0.25 %	0.30 %	0.24 %
2 Year T-Note	0.29 %	0.58 %	-1.30 %
5 Year T-Note	-2.45 %	-0.40 %	-17.43 %

<u>Summary of Fair Value Basis Return for the Period</u>		
	Total Portfolio	Excl. Cash Eq.
Interest Earned	12,391.20	9,637.02
Change in Fair Value	(40,133.05)	(40,133.05)
Total Income on Portfolio	(27,741.85)	(30,496.03)
Average Daily Historical Cost	20,666,814.42	10,142,790.25
Annualized Return	(1.58%)	(3.54%)
Annualized Return Net of Fees	(1.64%)	(3.66%)
Annualized Return Year to Date Net of Fees	0.07%	(0.15%)
Weighted Average Effective Maturity in Days	370	785

**Town of Atherton
Maturity Distribution of Securities Held
December 31, 2013**

Maturity	Historical Cost	Percent
Under 90 Days	13,405,709.76	62.25 %
90 To 180 Days	498,399.44	2.31 %
180 Days to 1 Year	0.00	0.00 %
1 To 2 Years	2,102,113.50	9.76 %
2 To 3 Years	1,807,875.94	8.40 %
3 To 4 Years	3,719,521.00	17.27 %
4 To 5 Years	0.00	0.00 %
Over 5 Years	0.00	0.00 %
	21,533,619.64	100.00 %

Maturity Distribution



**Town of Atherton
Securities Held
December 31, 2013**

CUSIP/ Description	Purchase Date	Rate/ Coupon	Maturity/ Call Date	Par Value/ Shares	Historical Cost/ Accrued Interest Purchased	Amortized Cost/ Accretion (Amortization)	Fair Value/ Change In Fair Value	Unrealized Gain (Loss)	Interest Received	Interest Earned	Total Accrued Interest	% Port Cost	Yield	
Cash and Equivalents														
LAIF	12/31/13	0.263V		11,394,991.91	11,394,991.91	11,394,991.91	11,394,991.91	0.00	0.00	2,754.18	5,793.98	52.92	0.26	
					0.00	0.00	0.00							
TOTAL (Cash and Equivalents)				11,394,991.91	11,394,991.91	11,394,991.91	11,394,991.91	0.00	0.00	2,754.18	5,793.98	52.92		
					0.00	0.00	0.00							
Commercial Paper														
4497W1B47	08/09/13	0.000	02/04/14	250,000.00	249,577.36	249,919.72	249,967.75	48.03	0.00	0.00	0.00	1.16	0.35	
ING Funding					0.00	73.19	50.00							
4497W1CJ3	10/02/13	0.000	03/18/14	250,000.00	249,640.49	249,836.39	249,900.00	63.61	0.00	0.00	0.00	1.16	0.31	
ING Funding					0.00	66.73	70.25							
06737JFT7	10/02/13	0.000	06/27/14	500,000.00	498,399.44	498,942.91	499,238.50	295.59	0.00	0.00	0.00	2.31	0.44	
Barclays US Funding					0.00	185.14	288.50							
TOTAL (Commercial Paper)				1,000,000.00	997,617.29	998,699.02	999,106.25	407.23	0.00	0.00	0.00	4.63		
					0.00	325.06	408.75							
U.S. Treasury														
912828QX1	08/12/11	1.500	07/31/16	500,000.00	511,835.94	506,142.95	511,367.00	5,224.05	0.00	631.80	3,138.59	2.38	1.01	
T-Note					0.00	(202.16)	(2,344.00)							
TOTAL (U.S. Treasury)				500,000.00	511,835.94	506,142.95	511,367.00	5,224.05	0.00	631.80	3,138.59	2.38		
					0.00	(202.16)	(2,344.00)							
U.S. Instrumentality														
3134G3LF5	Call	02/29/12	1.000	02/13/15	1,000,000.00	1,008,750.00	1,000,526.22	1,000,970.00	443.78	0.00	833.33	3,833.33	4.68	0.55
FHLMC				02/13/14		0.00	(379.37)	(711.00)						
313370JB5		10/23/12	1.750	09/11/15	500,000.00	518,170.00	510,663.87	511,481.50	817.63	0.00	729.17	2,673.61	2.41	0.48
FHLB						0.00	(534.92)	(1,104.50)						
3133725D2		10/02/13	2.125	12/21/15	750,000.00	777,967.50	774,825.47	775,307.25	481.78	7,968.75	1,328.13	442.71	3.61	0.43
FHLB						0.00	(1,070.36)	(2,091.75)						
3134G3GY0	Call	01/25/12	1.125	01/13/16	500,000.00	502,750.00	500,045.90	500,127.00	81.10	0.00	468.75	2,625.00	2.33	0.84
FHLMC				01/13/14		0.00	(118.56)	(343.00)						
3135G0VH3	Call	04/19/13	0.750	03/04/16	800,000.00	805,976.00	803,730.63	803,571.20	(159.43)	0.00	500.00	1,950.00	3.74	0.35
FNMA				03/04/15		0.00	(270.84)	(1,146.40)						
313370TW8		10/02/13	2.000	09/09/16	1,000,000.00	1,035,900.00	1,032,855.36	1,033,539.00	683.64	0.00	1,666.66	6,222.22	4.81	0.76
FHLB						1,277.78	(1,037.18)	(4,344.00)						
3135G0VM2	Call	04/17/13	0.750	03/14/17	500,000.00	501,290.00	500,280.60	494,225.00	(6,055.60)	0.00	312.50	1,114.58	2.33	0.46
FNMA				03/14/14		0.00	(120.82)	(2,849.50)						

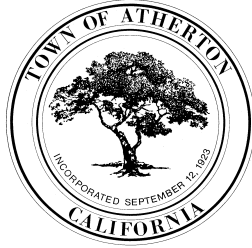
**Town of Atherton
Securities Held
December 31, 2013**

CUSIP/ Description	Purchase Date	Rate/ Coupon	Maturity/ Call Date	Par Value/ Shares	Historical Cost/ Accrued Interest Purchased	Amortized Cost/ Accretion (Amortization)	Fair Value/ Change In Fair Value	Unrealized Gain (Loss)	Interest Received	Interest Earned	Total Accrued Interest	% Port Cost	Yield
3137EADF3 FHLMC	08/06/12	1.250	05/12/17	500,000.00	511,200.00	507,897.93	503,263.50	(4,634.43)	0.00	520.83	850.69	2.37	0.77
					0.00	(199.54)	(3,752.50)						
313379DD8 FHLB	11/09/12	1.000	06/21/17	500,000.00	507,000.00	505,263.50	498,271.50	(6,992.00)	2,500.00	416.67	138.89	2.35	0.69
					0.00	(128.78)	(3,787.50)						
3137EADH9 FHLMC	07/31/12	1.000	06/29/17	500,000.00	504,650.00	503,304.77	496,831.00	(6,473.77)	2,500.00	416.67	27.78	2.34	0.81
					0.00	(80.35)	(3,950.00)						
3134G3M31 FHLMC	04/19/13	1.000	09/27/17	1,200,000.00	1,203,276.00	1,200,000.00	1,183,966.80	(16,033.20)	0.00	1,000.00	3,133.33	5.59	1.00
					0.00	0.00	(11,246.40)						
TOTAL (U.S. Instrumentality)				7,750,000.00	7,876,929.50	7,839,394.25	7,801,553.75	(37,840.50)	12,968.75	8,192.71	23,012.14	36.58	
					1,277.78	(3,940.72)	(35,326.55)						
Corporate													
478160AY0 Johnson & Johnson	08/13/13	2.150	05/15/16	250,000.00	260,140.00	258,718.79	258,390.25	(328.54)	0.00	447.92	686.81	1.21	0.66
					0.00	(312.46)	(1,024.25)						
594918AP9 Microsoft	10/04/13	0.875	11/15/17	500,000.00	492,105.00	492,572.50	492,053.50	(519.00)	0.00	364.59	559.03	2.29	1.27
					0.00	162.84	(1,847.00)						
TOTAL (Corporate)				750,000.00	752,245.00	751,291.29	750,443.75	(847.54)	0.00	812.51	1,245.84	3.49	
					0.00	(149.62)	(2,871.25)						
GRAND TOTAL				21,394,991.91	21,533,619.64	21,490,519.42	21,457,462.66	(33,056.76)	12,968.75	12,391.20	33,190.55	100.00	
					1,277.78	(3,967.44)	(40,133.05)						

V = variable rate, current rate shown, average rate for Cash & Equivalents

**Town of Atherton
Quarterly Treasurer's Report
Cash & Investments Balance By Fund
December 31, 2013**

Fund No.	Fund Name	DEC Balance
101	General Fund	8,980,892
105	Tennis Fund	14,774
610	Equipment Replacement Fund	421,204
614	Worker's Compensation	145,314
615	General Liability	381,318
616	Employee Benefits	1,397,298
	Total Non-Restricted	<u>11,340,799</u>
201	Special Tax Fund	1,820,325
202	County Measure A Fund	477,419
203	Gas Tax Fund	173,018
204	Measure M	71,603
209	SLES/COPS Grant	43,833
210	Road Constructions Impact Fee	780,419
213	Library Fund	6,197,828
215	Evans Creative Design (formerly fund 715)	57,892
401	GF Projects	278,234
402	Storm Drainage	29,825
403	Atherton Channel Drainage District	193,525
406	Facilities Construction	2,213,415
730	H-P Park Improvement	6,050
740	Tree Committee	25,003
	Total Restricted	<u>12,368,389</u>
	Total Cash & Investments	<u><u>23,709,188</u></u>



Town of Atherton

Statement of Investment Policy

The City Council of the Town of Atherton (the Town) 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 Town. All Town funds will be invested in accordance with this Policy and with applicable sections of the California Government Code.

This Investment Policy was endorsed and adopted by the City Council on October 17, 2012. It replaces any previous investment policy or investment procedures of the Town.

SCOPE

The provisions of this Policy shall apply to all financial assets of the Town as accounted for in the Town's Comprehensive Annual Financial Report.

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. Investment income shall be distributed to the individual funds not less than annually.

OBJECTIVES

The Town's funds shall be invested in accordance with all applicable Town codes and resolutions, California 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 rate of return.
4. Diversification to avoid incurring unreasonable market risks.

DELEGATION OF AUTHORITY

The management responsibility for the Town's investment program is delegated annually by the City Council to the Treasurer, as provided for in California Government Code Section 53607. The Town's City Manager serves as the Treasurer shall work in conjunction with the Finance Director to conduct investment transactions and to manage the operation of the investment portfolio. No person may engage in an investment transaction except as expressly provided under the terms of this Policy.

The City Manager or designee shall develop administrative procedures and internal controls, consistent with this Policy, for the operation of the Town's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the Town.

The Town may engage the support services of outside investment advisors with respect to its investment program, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the Town's financial resources.

PRUDENCE

The standard of prudence to be used for managing the Town's investment program is California Government Code Section 53600.3, the prudent investor standard which states, "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 Town's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Town recognizes that no investment is totally without risk and that the investment activities of the Town are a matter of public record. Accordingly, the Town recognizes that occasional measured losses may occur 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 Town.

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

ETHICS AND CONFLICTS OF INTEREST

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the Town's investment program or could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall subordinate their personal investment transactions to those of the Town. In addition, Town City Council members, the City Manager, and the Finance Director shall file a Statement of Economic Interests each year as required by California Government Code Section 87203 and regulations of the Fair Political Practices Commission.

AUTHORIZED SECURITIES AND TRANSACTIONS

All investments and deposits of the Town shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686. Any revisions or extensions of these code sections will be assumed to be part of this Policy immediately upon being enacted.

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

1. United States Treasury bills, notes or bonds with a final maturity not exceeding five years from the date of trade settlement.

2. Federal Instrumentality (government sponsored enterprise) debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of trade settlement.

No more than 25% of the Town's total portfolio shall be invested in any one instrumentality issuer.

3. 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, with a final maturity not exceeding five years from the date of trade settlement, and rated at least AAAAA or the equivalent by a nationally recognized statistical rating organization (NRSRO). The aggregate investment in medium-term notes shall not exceed 30% of the Town's total portfolio. In addition, AAA AA rated FDIC guaranteed corporate bonds are herein authorized, within the aforementioned diversification and maturity requirements.

No more than 5% of the Town's portfolio shall be invested in any one corporate issuer.

4. Negotiable Certificates of Deposit with a maturity not exceeding five years from the date of trade settlement, in state or nationally chartered banks or savings banks that are insured by the FDIC, subject to the limitations of California Government Code Section 53638. Certificates of Deposits may be purchased only from financial institutions that meet the credit criteria set forth in the section of this Investment Policy, "Selection of Banks and Savings Banks." Depending on their maturity, Negotiable Certificates of Deposit shall have a short-term rating of at least A-1+ or the equivalent by a NRSRO at the time of purchase.

5. Non-negotiable Certificates of Deposit and savings deposits with a maturity not exceeding five years from the date of trade settlement, in FDIC insured state or nationally chartered banks or savings banks that qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5. Deposits exceeding the FDIC insured amount shall be secured pursuant to California Government Code Section 53652.

The Town will limit its investment in certificates of deposit to \$250,000 per issuer.

No more than 10% of the portfolio shall be invested in any one issuer of certificates of deposit.

2.6. Prime Commercial Paper with a maturity not exceeding 270 days from the date of trade settlement with the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either sub-paragraph A. or sub-paragraph B. below:

A. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of \$500,000,000 and (3) have debt other than commercial paper, if any, that is rated at least A or the equivalent by a NRSRO.

B. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program-wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond and (3) have commercial paper that is rated at least A-1 or the equivalent by a NRSRO.

No more than 5% of the Town's total portfolio shall be invested in the commercial paper of any one issuer, and the aggregate investment in commercial paper shall not exceed 25% of the Town's total portfolio.

3.7. Repurchase Agreements with a final termination date not exceeding 30 days collateralized by U.S. Treasury obligations or Federal Instrumentality securities listed in items 1 and 2 above with the maturity of the collateral not exceeding ~~ten~~five years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the Town'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 Town'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 and who are recognized as Primary Dealers with the Federal Reserve Bank of New York, or with firms that have a Primary Dealer within their holding company structure. Primary Dealers approved as Repurchase Agreement counterparties shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent. Repurchase agreement counterparties shall execute a Town approved Master Repurchase Agreement with the Town. The City Manager or designee shall

maintain a copy of the Town's approved Master Repurchase Agreement and a list of the broker/dealers who have executed same.

4.8. State of California's Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1. The aggregate investment in the pool shall not exceed 50% of the Town's total portfolio.

5.9. Money Market Funds registered under the Investment Company Act of 1940 that (1) are "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 statutes and (4) have a rating of at least AAAM or the equivalent by at least two NRSROs. The aggregate investment in money market funds shall not exceed 20% of the Town's total portfolio.

Securities that have been downgraded to a level that is below the minimum ratings described herein may be sold or held at the City's discretion. The portfolio will be brought back into compliance with Investment Policy guidelines as soon as is practical.

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

INVESTMENT DIVERSIFICATION

The Town shall diversify its investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Nevertheless, the asset allocation in the investment portfolio should be flexible depending upon the outlook for the economy, the securities markets and the Town's anticipated cash flow needs.

PORTFOLIO MATURITIES AND LIQUIDITY

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The Town 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 investment.

SELECTION OF BROKER/DEALERS

The City Manager or designee shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the Town 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.

To be eligible, a firm must meet at least one of the following criteria:

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).

The City Manager or designee will select broker/dealers on the basis of their expertise in public cash management and their ability to provide service to the Town's account. Each authorized broker/dealer shall submit and annually update a Town approved Broker/Dealer Information Request form that includes the firm's most recent financial statements.

The Town 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 4 of the Authorized Securities and Transactions section of this Investment Policy.

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

SELECTION OF BANKS

The City Manager or designee shall maintain a list of FDIC insured banks approved to provide depository and other banking services for the Town. To be eligible, a bank shall qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5 and shall secure deposits in excess of FDIC insurance coverage in accordance with California Government Code Section 53652.

SAFEKEEPING AND CUSTODY

The City Manager or designee shall select one or more banks to provide safekeeping and custodial services for the Town. A Safekeeping Agreement approved by the Town 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 Town'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 Town. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

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

PORTFOLIO PERFORMANCE

The investment 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 Town's investments 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 Town's portfolio, its rate of return will be computed net of all fees and expenses.

REPORTING

~~Monthly~~ Quarterly, the City Manager or designee shall submit to the City Council a report of the investment earnings and performance results of the Town's investment 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 Town;
2. A description of the funds, investments and 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. A statement of compliance with this Policy or an explanation for non-compliance; and
5. A statement of the Town's ability to meet expenditure requirements for six months, and an explanation of why money will not be available if that is the case.

POLICY REVIEW

This Investment Policy shall be adopted annually by resolution of the City Council. 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. Amendments to this Investment Policy shall be approved by resolution of the City Council.