

INVESTMENT MANAGEMENT AGREEMENT
(Institutional Client, Non-ERISA)

THIS AGREEMENT is made and entered into this 5TH day of MARCH, 2018, by and between the City of Merced, a California Municipal Corporation, whose address of record is 678 West 18th Street, Merced, California 95340, (hereinafter referred to as “City”) and Chandler Asset Management, Inc., a California Corporation, whose address of record is 6225 Lusk Boulevard, San Diego, California 92126, (hereinafter referred to as “Consultant”). In consideration of the mutual covenants and conditions set forth herein, the parties agree as follows:

1. Term. This Agreement shall commence upon the effective date set forth above and shall continue in effect for a period of three (3) years, ending on MARCH 4, 2021. The City may, at its option, exercise up to two (2) one-year extensions by providing written notice of intent to extend the Agreement to Consultant not less than thirty (30) days prior to the expiration of the previous term. Such extension shall be at the same price and conditions set forth herein.
2. Termination. The City may, at any time and for any reason, with or without cause, terminate this Agreement, by upon ten (10) days written notice. Upon notice, the Agreement shall then be deemed terminated and no further work shall be performed by Consultant. If the Agreement is so terminated, the City shall pay Consultant the actual value of work performed up to the time of termination, provided that such work was/is of value to the City..
3. Scope of Services. Consultant shall perform all the services described in the Scope of Services attached hereto as **Exhibit A** and incorporated herein by reference.
4. Fees. City shall compensate Consultant monthly an amount calculated on the average market value of City's portfolio, including accrued interest, in accordance with the following schedule:

| Assets Under Management | Annual Investment Management Fee |
|-----------------------------------|----------------------------------|
| First \$25 million | 0.10 of 1% (10 basis points) |
| Next \$25 million | 0.08 of 1% (8 basis points) |
| Next \$50 million | 0.07 of 1% (7 basis points) |
| Assets in excess of \$100 million | 0.06 of 1% (6 basis points) |

The fees expressed above do not include any custody fees that may be charged by City's bank or other third party custodian.

Fees shall be prorated to the effective date of termination on the basis of actual days elapsed, and any unearned portion of prepaid fees shall be refunded. City is not required to pay any start-up or closing fees; there are no penalty fees.

Fees will be invoiced monthly in arrears.

5. City Representative. In its capacity as investment manager, Consultant shall receive all instructions, directions and other communications on City's behalf respecting City's account from Finance Officer or Deputy Finance Officer (Representatives). Consultant is hereby authorized to rely and act upon all such instructions, directions and communications from such Representative or any agent of such Representative.
6. Investment Policy. In investing and reinvesting City's assets, Consultant shall comply with City's Investment Policy, as amended from time to time, the current of which is attached hereto as **Exhibit B**.
7. Authority of Consultant. Consultant is hereby granted full discretion to invest and reinvest all assets under its management in any type of security it deems appropriate, subject to City's management directives, instructions given or guidelines set by Representative.
8. Notices. All reports and other communications required hereunder to be in writing shall be delivered in person, or sent by first-class mail postage prepaid, by overnight courier, by confirmed facsimile with original to follow or by confirmed electronic mail with proof of receipt to the addresses set forth below. Either party to this Agreement may, by written notice given at any time, designate a different address for the receipt of reports and other communications due hereunder.

Chandler Asset Management
 Attn: Nicole Dragoo
 6225 Lusk Boulevard
 San Diego, CA 92121
 ndragoo@chandlerasset.com

City of Merced
 Venus Rodriguez or Julie Trujillo
 678 W. 18th Street
 Merced, CA 95340
 rodriguezv@cityofmerced.org or
 trujilloj@cityofmerced.org

9. Electronic Delivery. From time to time, Consultant may be required to deliver certain documents to City such as account information, notices and required disclosures. City hereby consents to Consultant's use of electronic means, such as email, to make such delivery. This delivery may include notification of the availability of such document(s) on a website, and City agrees that such notification will constitute "delivery". City further agrees to provide Consultant with City's email address(s) and to keep this information current at all times by promptly notifying Consultant of any change in email address(s).

City email address(s): rodriguezv@cityofmerced.org or trujilloj@cityofmerced.org

10. Proxy Voting. Consultant will vote proxies on behalf of City unless otherwise instructed. Consultant has adopted and implemented written policies and procedures and will provide City with a description of the proxy voting procedures upon request. Consultant will provide information regarding how City's proxies were voted upon request. To request proxy policies or other information, please contact us by mail at the address provided, by calling 800-317-4747 or by emailing your request to info@chandlerasset.com.
11. Custody of Securities and Funds. Consultant shall not have custody or possession of the funds or securities that City has placed under its management. City shall appoint a custodian to take and have possession of its assets. City recognizes the importance of comparing statements received from the

appointed custodian to statements received from Consultant. City recognizes that the fees expressed above do not include fees City will incur for custodial services.

12. Valuation. Consultant will value securities held in portfolios managed by Consultant no less than monthly. Securities or investments in the portfolio will be valued in a manner determined in good faith by Consultant to reflect fair market value.
13. Investment Advice. City recognizes that the opinions, recommendations and actions of Consultant will be based on information deemed by it to be reliable, but not guaranteed to or by it. Provided that Consultant acts in good faith and in compliance with the City's Investment Policy, which is attached hereto as Exhibit B, City agrees that Consultant will not in any way be liable for any error in judgment or for any act or omission, except as may otherwise be provided for under the Federal Securities laws or other applicable laws.
14. Payment of Commissions. Consultant may place buy and sell orders with or through such brokers or dealers as it may select. It is the policy and practice of Consultant to strive for the best price and execution and for commission and discounts which are competitive in relation to the value of the transaction and which comply with Section 28(e) of the Securities and Exchange Act. Nevertheless, it is understood that Consultant may pay a commission on transactions in excess of the amount another broker or dealer may charge, and that Consultant makes no warranty or representation regarding commissions paid on transactions hereunder.
15. Other Clients. It is further understood that Consultant may be acting in a similar capacity for other institutional and individual clients, and that investments and reinvestments for City's portfolio may differ from those made or recommended with respect to other accounts and clients even though the investment objectives may be the same or similar. Accordingly, it is agreed that Consultant will have no obligation to purchase or sell for City's account any securities which it may purchase or sell for other clients.
16. Confidential Relationship. The terms and conditions of this Agreement, and all information and advice furnished by either party to the other shall be treated as confidential and shall not be disclosed to third parties except (i) as required by law, rule, or regulation, (ii) as requested by a regulatory authority, (iii) for disclosures by either party of information that has become public by means other than wrongful conduct by such party or its officers, employees, or other personnel, (iv) for disclosures by either party to its legal counsel, accountants, or other professional advisers, (v) as necessary for Consultant to carry out its responsibilities hereunder, or (vi) as otherwise expressly agreed by the parties.
17. Records. It is understood and agreed that all plans, studies, specifications, data magnetically or otherwise recorded on computer or computer diskettes, records, files, reports, etc., in possession of the Consultant relating to the matters covered by this Agreement shall be the property of the City, and Consultant hereby agrees to deliver the same to the City upon termination of the Agreement. It is understood and agreed that the documents and other materials including but not limited to those set forth hereinabove, prepared pursuant to this Agreement are prepared specifically for the City and are not necessarily suitable for any future or other use.

18. Consultant's Books and Records. Consultant shall maintain any and all ledgers, books of account, invoices, vouchers, canceled checks, and other records or documents evidencing or relating to charges for services or expenditures and disbursements charged to the City for a minimum of three (3) years, or for any longer period required by law, from the date of final payment to the Consultant to this Agreement. Any records or documents required to be maintained shall be made available for inspection, audit and/or copying at any time during regular business hours, upon oral or written request of the City.
19. Independent Contractor. It is expressly understood that Consultant is an independent contractor and that its employees shall not be employees of or have any contractual relationship with the City. Consultant shall be responsible for the payment of all taxes, workers' compensation insurance and unemployment insurance. Should Consultant desire any insurance protection, the Consultant is to acquire same at its expense.

In the event Consultant or any employee, agent, or subcontractor of Consultant providing services under this Agreement is determined by a court of competent jurisdiction or the California Public Employees Retirement System (PERS) to be eligible for enrollment in PERS as an employee of the City, Consultant shall indemnify, protect, defend, and hold harmless the City for the payment of any employee and/or employer contributions for PERS benefits on behalf of Consultant or its employees, agents, or subcontractors, as well as for the payment of any penalties and interest on such contributions, which would otherwise be the responsibility of City.

20. Indemnity. Consultant shall indemnify, protect, defend (with legal counsel selected by the City), save and hold City, its officers, employees, and agents, harmless from any and all claims or causes of action for death or injury to persons, or damage to property resulting from intentional or negligent acts, errors, or omissions of Consultant or Consultant's officers, employees, volunteers, and agents during performance of this Agreement, or from any violation of any federal, state, or municipal law or ordinance, to the extent caused, in whole or in part, by the willful misconduct, negligent acts, or omissions of Consultant or its employees, subcontractors, or agents, or by the quality or character of Consultant's work, or resulting from the negligence of the City, its officers, employees, volunteers and agents, except for loss caused by the sole negligence or willful misconduct of the City or its officers, employees, volunteers or agents. It is understood that the duty of Consultant to indemnify and hold harmless includes the duty to defend as set forth in Section 2778 of the California Civil Code. Acceptance by City of insurance certificates and endorsements required under this Agreement does not relieve Consultant from liability under this indemnification and hold harmless clause. This indemnification and hold harmless clause shall survive the termination of this Agreement and shall apply to any damages or claims for damages whether or not such insurance policies shall have been determined to apply. By execution of this Agreement, Consultant acknowledges and agrees to the provisions of this Section and that it is a material element of consideration.
21. Insurance. During the term of this Agreement, Consultant shall maintain in full force and effect at its own cost and expense, the following insurance coverage:

- a. Workers' Compensation Insurance. Full workers' compensation insurance shall be provided with a limit of at least One Hundred Thousand Dollars (\$100,000) for any one person and as required by law, including Employer's Liability limits of \$1,000,000.00 per accident. The

policy shall be endorsed to waive the insurer's subrogation rights against the City.

b. General Liability.

- i. Consultant shall obtain and keep in full force and effect general liability coverage at least as broad as ISO commercial general liability coverage occurrence Form CG 0001.
- ii. Consultant shall maintain limits of no less than One Million Dollars (\$1,000,000) per occurrence for bodily injury, personal injury and property damage.
- iii. The City, its officers, employees, volunteers and agents are to be named as additional insureds under the policy, as respects liability arising out of work or operations performed by or on behalf of the Consultant.
- iv. The policy shall stipulate that this insurance will operate as primary insurance for work performed by Consultant and its sub-contractors, and that any other insurance or self-insurance maintained by City or other named insureds shall be excess and non-contributory.
- v. Consultant shall maintain its commercial general liability coverage for three (3) years after completion of the work and shall add an additional insured endorsement form acceptable to the City naming the City of Merced, its officers, employees, agents and volunteers for each year thereafter for at least three (3) years after completion of the work. Copies of the annual renewal and additional insured endorsement form shall be sent to the City within thirty (30) days of the annual renewal.

c. Automobile Insurance.

- i. Consultant shall obtain and keep in full force and effect an automobile policy of at least One Million Dollars (\$1,000,000) per accident for bodily injury and property damage.
- ii. The City, its officers, employees, volunteers and agents are to be named as additional insureds under the policy, as respects automobiles owned, leased, hired or borrowed by the Consultant.
- iii. The policy shall stipulate that this insurance will operate as primary insurance for work performed by Consultant and its sub-contractors, and that any other insurance or self-insurance maintained by City or other named insureds shall be excess and non-contributory.

d. Professional Liability Insurance. Consultant shall carry professional liability insurance appropriate to Consultant's profession in the minimum amount of One Million Dollars (\$1,000,000). Architects and engineers' coverage is to be endorsed to include contractual liability.

- e. **Qualifications of Insurer.** The insurance shall be provided by an acceptable insurance provider, as determined by City, which satisfies all of the following minimum requirements:
 - i. An insurance carrier admitted to do business in California and maintaining an agent for service of process within this State; and,
 - ii. An insurance carrier with a current A.M. Best Rating of A:VII or better (except for workers' compensation provided through the California State Compensation Fund).
- f. **Certificate of Insurance.** Consultant shall complete and file with the City prior to engaging in any operation or activity set forth in this Agreement, certificates of insurance evidencing coverage as set forth above and which shall provide that no cancellation or expiration by the insurance company will be made during the term of this Agreement, without thirty (30) days written notice to City prior to the effective date of such cancellation—including cancellation for nonpayment of premium.
- g. Notwithstanding any language in this Agreement to the contrary, Consultant shall be entitled to be paid pursuant to the terms of this Agreement until Consultant has obtained the insurance required by this Section 21 and provided documentation of said insurance to the City. In addition to any other remedies City may have, City reserves the right to withhold payment if Consultant's insurance policies are not current.

22. **Conformance to Applicable Laws.** Consultant shall comply with its standard of care regarding all applicable Federal, State, and municipal laws, rules and ordinances. No discrimination shall be made by Consultant in the employment of persons to work under this contract because of race, color, national origin, ancestry, disability, sex or religion of such person.

Consultant hereby promises and agrees to comply with all of the provisions of the Federal Immigration and Nationality Act (8 U.S.C.A. 1101 et seq.), as amended; and in connection therewith, shall not employ unauthorized aliens as defined therein. Should Consultant so employ such unauthorized aliens for the performance of work and/or services covered by this Agreement, and should any agency or instrumentality of the federal or state government, including the courts, impose sanctions against the City for such use of unauthorized aliens, Consultant hereby agrees to, and shall, reimburse City for the cost of all such sanctions imposed, together with any and all costs, including attorneys' fees, incurred by the City in connection therewith.

23. **Licenses.** At all times during the term of this Agreement, Consultant shall have in full force and effect, all licenses required of it by law for the performance of services described in this Agreement.

24. **Conflicts of Interest.** No officer, or employee of the City shall have any financial interest, direct or indirect, in this Agreement, the proceeds thereof, the Consultant, or Consultant's sub-contractors for this project, during his/her tenure or for one year thereafter. The Consultant hereby warrants and represents to the City that no officer or employee of the City has any interest, whether contractual, non-contractual, financial or otherwise, in this transaction, or in the business of the Consultant or Consultant's sub-contractors on this project. Consultant further agrees to notify the City in the event any such interest is discovered whether or not such interest is prohibited by law or this Agreement.

25. No Assignment & Amendments. Neither party may assign, directly or indirectly, all or part of its rights or obligations under this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed. This Agreement may be amended at any time by mutual agreement in writing and signed by both parties hereto.
26. Governing Law. It is understood that this Agreement shall be governed by and construed under and in accordance with the laws of the State of California.
27. Severability. Any provision of this Agreement which is prohibited or unenforceable shall be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof.
28. Receipt of Brochure and Privacy Policy. City hereby acknowledges receipt of the disclosure statement or "brochure" and "brochure supplement" also known as Part 2A and Part 2B of Form ADV, required to be delivered pursuant to Rule 204-3 of the Investment Advisers Act of 1940 (Brochure). City further acknowledges receipt of Consultant's Privacy Policy, as required by Regulation S-P.
29. Integration. This Agreement constitutes the entire understanding and agreement of the parties and supersedes all previous and/or contemporaneous understanding or agreement between the parties with respect to all or any part of the subject matter hereof.
30. Authority to Execute. The person or persons executing this Agreement on behalf of the parties hereto warrants and represents that he/she/they has/have the authority to execute this Agreement on behalf of their entity and has/have the authority to bind their party to the performance of its obligations hereunder.
31. Attorneys' Fees. If any legal proceeding is instituted by either party to enforce the terms of this Agreement or to determine the rights of the parties thereunder, the prevailing party in the proceeding shall recover, in addition to all other court costs, reasonable attorneys' fees incurred in such proceeding.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed on the date first written above.

CITY OF MERCED
A California Charter Municipal Corporation

By: [Signature]
City Manager

ATTEST:
STEVE CARRIGAN, CITY CLERK

BY: [Signature]
Assistant/Deputy City Clerk



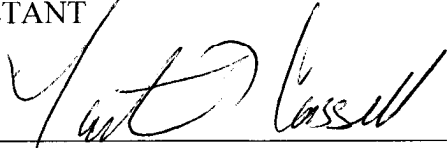
APPROVED AS TO FORM:

BY: [Signature] 2.27.18
City Attorney Date

300554 PO#: 129959
ACCOUNT DATA:

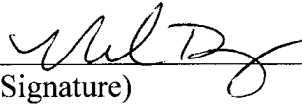
BY: [Signature]
Verified by Finance Officer V-17950
Funds Available. Use 2/28/18
001-0701-512-17-00 FL 3/23/18
\$25,000.00

CONSULTANT

BY: 
(Signature)

Martin D. Cassel
(Typed Name)

Its: CEO
(Title)

BY: 
(Signature)

Nicole Drago
(Typed Name)

Its: COO/CCO
(Title)

Taxpayer I.D. No. 33-0570869

Address: 10225 Lusk Blvd.
San Diego, CA 92121

Telephone: 858-546-3737

Fax: 858-546-3741

E-Mail: ndrago@chandlerasset.com

EXHIBIT A

Scope of Services

Consultant will perform the following services for City:

1. Comprehensive portfolio management:

- a. Develop and execute an investment strategy consistent with the City's stated investment policy objectives and parameters, applicable laws and an understanding of the City's cash flow needs.
- b. Establish an appropriate performance benchmark and compare historical results to the benchmark.
- c. Provide continuous investment management and advisory services for the City on all funds authorized by the City to be managed by Consultant.

2. Assist City with maturity and cash flow analysis:

- a. Consultant will keep City abreast of maturing securities available for both reinvestment and upcoming liquidity needs, or to fund capital improvement projects.
- b. Assist City with cash flow analysis, communicating with City about current and expected needs in order to maintain cash flow forecasts used to manage liquidity.
- c. Consultant will structure securities in the portfolio to mature on known cash flow dates and identify funds for longer term investments.

3. Review of City's Investment Policy:

- a. At inception, Consultant will conduct an extensive review of City's investment policy, consulting with City to ensure the investment policy appropriately embodies City's investment objectives, risk profile and expected outcomes as well as applicable laws and industry best practices.
- b. On an annual basis, Consultant will perform a review of City's current investment policy and recommend appropriate amendments to comply with applicable laws or minimize risk with respect to stated investment objectives.

4. Investment Reporting:

- a. Provide monthly reporting of the portfolio under management showing deposits, withdrawals, purchases and sales (or maturities) of investments, earnings received, and the value of assets held on the last business day of the month.
- b. Provide quarterly investment reporting designed in a format that facilitates discussion between Consultant's Investment Team and City's governing body.
- c. Provide for online access to and electronic delivery of monthly statements.

5. Provide assurance of portfolio compliance with applicable policies and laws:

- a. Consultant will continuously monitor the investment portfolio ensuring that all trades comply with legal requirements and City's current investment policy.
- b. Provide a detailed statement of compliance in City's monthly statement.

6. Attend meetings with government officials as needed:

- a. Meet with City as needed to present the investment portfolio to City's staff and Council members.

Exhibit B
City of Merced
Investment Policy

1. Policy

It is the Policy of the City of Merced and all entities of the City of Merced to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands and conforming to all state and local statutes governing the investment of public funds.

2. Scope

This investment policy applies to the investment activities of the City of Merced and all entities of the City of Merced. These funds are accounted for in the Annual Financial Reports and include:

Funds:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Trust and Agency Funds

This investment policy does not apply to any retirement funds or deferred compensation funds administered by other agencies.

3. Prudence

Investment officials shall use judgment and care in accordance with established procedures and exercise due diligence in investing these funds. The standard of prudence to be used by investment officials shall be the "prudent person" and shall be applied in the context of the overall portfolio.

4. Objectives

Safety: Safety of principal is the foremost objective of the investment program. Funds will be invested in a manner that will preserve and protect capital in the overall portfolio.

Liquidity: A portion of the investment portfolio will remain sufficiently liquid to meet all operating requirements which might be reasonably anticipated, thereby obviating the need for forced liquidation. Liquidity requirements shall be ensured by maintaining sufficient investment amounts in, Local Investment Agency Fund, Savings, or any maturing investment.

Return on Investments: The investment portfolio should at a minimum regularly exceed the average return on three-month U.S. Treasury bills, or the average rate on Fed funds, whichever is higher. These indices comprise a minimum standard for a rate of return that is considered a benchmark for riskless investment transactions. Returns above this threshold will be sought when consistent with risk limitations identified herein and prudent investment principles.

With the use of daily cash balance reports and cash flow projections available funds will be invested as near as possible to 100%.

5. Delegation of Authority

The finance officer is designated as investment officer and is responsible for investment decisions and activities, under the direction of the city manager. The finance officer shall be responsible for developing and maintaining administrative procedures for the operation of the program which are consistent with these policies.

6. Ethics and Conflicts of Interests

Any employee involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the city manager any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of this jurisdiction's portfolio. Employees and officers shall subordinate their personal investment transactions to those of this jurisdiction, particularly with regard to the timing of purchases and sales.

7. Authorized Financial Dealers and Institutions

The Finance Officer will maintain a list of financial institutions authorized to provide investment services. All financial institutions and broker/dealers who desire to become qualified bidders must be affiliated as primary dealers with the New York Federal Reserve Bank or broker/dealers who comply with the Federal capital adequacy guidelines. They must also certify that they have read and understood the City of Merced investment policies.

Banks shall be selected through the banking services procurement process. A formal request for proposal of depository services shall be issued no less than every five years. In selecting banks, the finance officer shall review the bank's financial history and creditworthiness.

8. Authorized & Suitable Investments

Funds may be used to purchase the following investment instruments:

- A. U.S. Treasury and U.S. Agency Issues
- B. Certificates of Deposit
- C. Local Agency Investment Fund
- D. Government Bonds and Notes
- E. Passbook Savings
- F. Bankers' Acceptance
- G. Commercial Paper
- H. Medium-term Notes
- I. Repurchase Agreements
- J. Mutual Funds

As far as is practicable two quotes will always be obtained before purchasing or selling securities.

To ensure receipt of securities, all trades will be executed on a delivery versus "payment" or "book entry" basis.

Bankers' Acceptance will only be purchased from prime money-center banks.

All U.S. Treasury and Agency obligations will be purchased at prices that are at or below par.

Commercial paper to be of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc., or Standard and Poor's Corporation. Eligible paper is further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000) and have an "A" or higher rating for issuer's debt, other than commercial paper, if any, as provided for by Moody Investors Service Inc., or Standard and Poor's Corporation Purchases of eligible commercial paper may not exceed 180 days maturity nor represent more than 10% of the outstanding paper of an issuing corporation. Purchases of commercial paper may not exceed 15% of the portfolio.

Medium-term notes to be of maximum of five years maturity 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. Notes eligible for investment shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Purchase of medium-term notes may not exceed 30% of the portfolio.

Investments in repurchase agreements is limited to purchase of U.S. Treasury and U.S. Agency Issues and Government Bonds and Notes (collateral) pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount. The term of the repurchase agreement shall be for one year or less.

Investments in mutual funds will be restricted to those funds that invest in securities and obligations otherwise eligible for local agency investment. Purchase of mutual fund shares may not exceed 15% of the portfolio.

Marketable securities will be traded prior to maturity if capital appreciation has occurred and/or yield can be increased with a minimum extension of maturity or the maturity can be shortened with a minimal loss in yield.

Losses are acceptable on a sale before maturity only if the reinvested proceeds will earn an income flow that would have been generated by the old investment considering any capital loss or forgone interest on the original investment. Any such sales will only be made upon the recommendation of the finance officer and approved by the city manager.

If not otherwise stated, the maximum maturity and maximum percent of investment type to total portfolio will be based on State law.

9. Collateralization

Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements.

Certificates of deposit must be fully insured by the FDIC; if over \$250,000 the difference must be collateralized with securities having a market value of at least 110% of the value of the public funds or 150% if the depository uses mortgaged back securities.

Collateral for repurchase agreement will have a market value of at least 102% of the specified amount in the agreement. Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership must be supplied to the City and retained.

10. Safekeeping and Custody

Where practicable, to protect against potential fraud and embezzlement, the City of Merced's ownership of all investments and collateral will be maintained through third-party custodial safekeeping. Bearer instruments shall be held only through third party institutions and all investment officials will be bonded.

11. Diversification

Assets invested shall be sufficiently diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issue, or a specific class of securities. Investment maturities shall be scheduled to coincide with projected cash flow needs.

12. Maximum Maturities

To the extent possible, the City of Merced will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow and authorized by the City Council, the City will not directly invest in securities maturing more than five years from the date of purchase.

13. Internal Controls

The finance officer shall establish a system of internal controls, which shall be designed to prevent losses of public funds arising from fraud, employee error, third party misrepresentation, unanticipated changes in financial markets or imprudent actions by employees and officers.

14. Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

15. Reporting

The finance officer shall submit a monthly investment report to the city council and city manager. This report will show the investments in the portfolio, specific information concerning these investments and any narrative necessary for clarification.

16. Investment Policy Adoption

The investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed annually by the Finance Officer and any modifications made thereto approved by the City Council.

GLOSSARY

AGENCIES: Federal agency securities.

ANNUAL FINANCIAL REPORT: The City shall issue either a Basic Financial Statement or Comprehensive Annual Financial Report (CAFR) annually. The Basic Financial Statement includes the minimum combination of financial statements and note disclosures required for fair presentation in conformity with Generally Accepted Accounting Principles (GAAP). The CAFR is a broader report that includes at a minimum, three sections 1) introductory, 2) financial, and 3) statistical. The financial section provides information on each individual fund and component unit. It is in conformity with both GAAP and Government Finance Officer Association (GFOA) recommendations.

ASKED: The price at which securities are offered.

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

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.)

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender at the end of the loan period. Certificates of Deposit (CDs) differ in terms of collateralization and marketability. Those appropriate to public agency investing include Negotiable Certificates of Deposit and Non-Negotiable Certificates of Deposit.

Negotiable Certificates of Deposit – Generally, short-term debt instrument that usually pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. The majority of negotiable CDs mature within six months while the average maturity is two weeks. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor/investor. Negotiable CDs are insured by Federal Deposit Insurance Corporation (FDIC) up to \$250,000, but they are not collateralized beyond that amount. No more than 30% of an agency's portfolio may be invested in negotiable CDs.

Non-Negotiable Certificates of Deposit – CDs that carry penalty if redeemed prior to maturity. A secondary market does exist for non-negotiable CDs, but redemption includes a transaction cost that reduces returns to the investor. Non-negotiable CDs issued by banks and savings and loans are insured by the FDIC up to \$250,000. Amounts deposited above \$250,000 may be secured with other forms of collateral through an agreement between the investor and issuer.

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

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

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

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

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

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

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

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., saving and loan associations, small business firms, students, farmers, farm cooperatives, and exports.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

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

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial bank.

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

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

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

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

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

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

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

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

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.)

PORTFOLIO: Collection of securities held by an investor.

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

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

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

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

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuable of all types and descriptions are held in the bank’s vaults for protection.

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

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

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

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than 10 years.

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

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) Income Yield is obtained by dividing the current dollar income by the current market price for the security. (b) Net Yield or 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 the date of purchase to the date of maturity of the bonds.