

INVESTMENT MANAGEMENT AGREEMENT
(Institutional Client, Non-ERISA)

THIS AGREEMENT is made and entered into this 05 day of March, 2025 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 7250 Redwood Blvd., Suite 300 Novato, California 94945, (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 04, 2028. 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 \$50 million	0.09 of 1% (9 basis points)
Next \$50 million	0.07 of 1% (7 basis points)
Assets in excess of \$100 million	0.04 of 1% (4 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: Carlos M. Oblites
 7250 Redwood Blvd, Ste. 300
 Novato, CA 94945
 coblites@chandlerasset.com

City of Merced
 Venus Rodriguez or Kuljit Singh
 678 W. 18th Street
 Merced, CA 95340
 rodriguezv@cityofmerced.org or
 singhk@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 singhk@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: _____
City Manager

ATTEST:
SCOTT MCBRIDE, CITY CLERK

BY: _____
Assistant/Deputy City Clerk

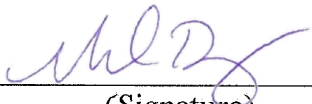
APPROVED AS TO FORM:

BY: Craig Cornwell 1/3/2025
City Attorney Date

ACCOUNT DATA:

BY: _____
Verified by Finance Officer

CONSULTANT

BY: 
(Signature)

Nicole Dragoo
(Typed Name)

Its: CEO
(Title)

BY: 
(Signature)

Martin Cassell
(Typed Name)

Its: CFO
(Title)

Taxpayer I.D. No. 33-0570869

Address: 9255 Towne Centre Drive, Ste 600
San Diego, CA 92121

Telephone: 858-546-3737

Fax: 858-546-3741

E-Mail: ndragoo@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, deferred compensation or debt service funds administered by other agencies.

3. Prudence

Pursuant to California Government Code, Section 53600.3, all persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the Prudent Investor Standard:

“...all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the 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 limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

The Finance Officer and other authorized persons responsible for managing City funds acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes provided that the Finance Officer or other authorized persons acted in good faith. Deviations from expectations of a security's credit or market risk should be reported to the City Manager in a timely fashion and appropriate action should be taken to control adverse developments.

Dated January 19, 2021

adverse developments.

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 will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs.

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.

The City may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of the overall portfolio's return and the cash flow requirements of the City.

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

To the extent practicable, the Finance Officer shall endeavor to complete investment transactions using a competitive bid process whenever possible. The City's Finance Officer will determine which financial institutions

Dated January 19, 2021

are authorized to provide investment services to the City. It shall be the City's policy to purchase securities only from authorized institutions and firms.

The Finance Officer shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions which are approved for investment purposes that are selected through a process of due diligence as determined by the City. Due inquiry shall determine whether such authorized broker/dealers, and the individuals covering the City are reputable and trustworthy, knowledgeable and experienced in Public Agency investing and able to meet all of their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

In accordance with Section 53601.5, institutions eligible to transact investment business with the City include:

- Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
- Nationally or state-chartered banks.
- The Federal Reserve Bank.
- Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the City, except where the City utilizes an external investment adviser in which case the City may rely on the adviser for selection.

All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the Finance Officer with audited financials and a statement certifying that the institution has reviewed the California Government Code, Section 53600 et seq. and the City's investment policy. The Finance Officer will conduct an annual review of the financial condition and registrations of such qualified bidders.

Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

Selection of broker/dealers used by an external investment adviser retained by the City will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue.

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

The City's investments are governed by California Government Code, Sections 53600 et seq. Within the investments permitted by the Code, the City seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. Percentage holding limits listed in this section apply at the time the security is purchased.

Dated January 19, 2021

Any investment currently held at the time the policy is adopted which does not meet the new policy guidelines can be held until maturity, and shall be exempt from the current policy. At the time of the investment's maturity or liquidation, such funds shall be reinvested only as provided in the current policy.

An appropriate risk level shall be maintained by primarily purchasing securities that are of high quality, liquid, and marketable. The portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers. Funds may be used to purchase the following investment instruments:

- A. Municipal Securities which include obligations of the City, the State of California, and any local agency within the State of California, provided that:
 - The securities are rated in a rating category of "A" or its equivalent or better by at least one nationally recognized statistical rating organization ("NRSRO").
 - No more than 30% of the portfolio may be in Municipal Securities.
 - No more than 5% of the portfolio may be invested in any single issuer.
 - The maximum maturity does not exceed five (5) years.
- B. Municipal Securities (Registered Treasury Notes or Bonds) of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.
 - The securities are rated in a rating category of "A" or its equivalent or better by at least one nationally recognized statistical rating organization ("NRSRO").
 - No more than 30% of the portfolio may be in Municipal Securities.
 - No more than 5% of the portfolio may be invested in any single issuer.
 - The maximum maturity does not exceed five (5) years.
- C. U.S. Treasury and other government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest. There are no limits on the dollar amount or percentage that the City may invest in U.S. Treasuries, provided that:
 - The maximum maturity is five (5) years.
- D. Federal Agencies or United States Government-Sponsored Enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There are no limits on the dollar amount or percentage that the City may invest in Federal Agency or Government-Sponsored Enterprises (GSEs), provided that:
 - No more than 25% of the portfolio may be invested in any single Agency/GSE issuer.
 - The maximum maturity does not exceed five (5) years.
- E. Federally Insured Time Deposits —(Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions, provided that:
 - The amount per institution is limited to the maximum covered under federal insurance.
 - No more than 20% of the portfolio will be invested in a combination of federally insured and collateralized time deposits.
 - The maximum maturity does not exceed five (5) years.
- F. Collateralized Time Deposits (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with securities in accordance with California law, provided that:
 - No more than 20% of the portfolio will be invested in a combination of federally insured and collateralized time deposits.
 - The maximum maturity does not exceed five (5) years.

Dated January 19, 2021

- G. Negotiable Certificates of Deposit (NCDs), issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank, provided that:
- The amount of the NCD insured up to the FDIC limit does not require any credit ratings.
 - Any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
 - No more than 30% of the total portfolio may be invested in NCDs.
 - No more than 5% of the portfolio may be invested in any single issuer.
 - The maximum maturity does not exceed five (5) years.
- H. Local Agency Investment Fund (LAIF), provided that:
- The City may invest up to the maximum amount permitted by LAIF.
 - LAIF's investments in instruments prohibited by or not specified in the City's policy do not exclude the investment in LAIF itself from the City's list of allowable investments, provided LAIF's reports allow the Finance Officer to adequately judge the risk inherent in LAIF's portfolio.
- I. Collateralized Bank Deposits. City's deposits with financial institutions will be collateralized with pledged securities per California Government Code, Section 53651. There are no limits on the dollar amount or percentage that the City may invest in collateralized bank deposits.
- J. Bankers' Acceptances, provided that:
- They are issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term debt obligations which are rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
 - No more than 40% of the portfolio may be invested in Banker's Acceptances.
 - No more than 5% of the portfolio may be invested in any single issuer.
 - The maximum maturity does not exceed 180 days.
- K. Commercial Paper, provided that:
- The issuer is a corporation organized and operating in the United States with assets in excess of \$500 million.
 - The securities are rated "A-1" or its equivalent or better by at least one NRSRO.
 - They are issued by corporations which have long-term obligations rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
 - City may purchase no more than 10% of the outstanding commercial paper of any single issuer.
 - No more than 25% of the portfolio may be invested in Commercial Paper. Under a provision sunsetting on January 1, 2026, no more than 40% of the City's portfolio may be invested in Commercial Paper if the City's investment assets under management are greater than \$100,000,000.
 - No more than 5% of the portfolio may be invested in any single issuer.
 - The maximum maturity does not exceed 270 days.
- L. Medium-term Notes, provided that:
- The notes are issued by a corporation 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.
 - The securities are rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
 - No more than 30% of the total portfolio may be invested in MTNs.
 - No more than 5% of the portfolio may be invested in any single issuer.
 - The maximum maturity does not exceed five (5) years.
- M. Repurchase Agreements— collateralized with securities authorized under California Government Code, maintained at a level of at least 102% of the market value of the Repurchase Agreement. There are no limits on the dollar amount or percentage that the City may invest, provided that:

Dated January 19, 2021

- Securities used as collateral for Repurchase Agreements will be delivered to an acceptable third party custodian.
- Repurchase Agreements are subject to a Master Repurchase Agreement between the City and the provider of the repurchase agreement. The Master Repurchase Agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA).
- The maximum maturity does not exceed one (1) year.

N. Mutual Funds and Money Market Mutual Funds that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that:

- a. Mutual Funds that invest in the securities and obligations as authorized under California Government Code, Section 53601 (a) to (k) and (m) to (q) inclusive and that meet either of the following criteria:
 1. Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
 2. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California Government Code, Section 53601 and with assets under management in excess of \$500 million.
 3. No more than 10% of the total portfolio may be invested in shares of any one mutual fund.
- b. Money Market Mutual Funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:
 1. Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
 2. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of \$500 million.
 3. No more than 20% of the total portfolio may be invested in Money Market Mutual Funds.

O. Asset-backed, Mortgage-backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations not defined in paragraphs C or D of the Authorized & Suitable Investments section, provided that:

- The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.
- No more than 20% of the total portfolio may be invested in these securities.
- No more than 5% of the portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer.
- The maximum legal final maturity does not exceed five (5) years.

P. Supranationals, provided that:

- Issues are US 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.
- The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.
- No more than 30% of the total portfolio may be invested in these securities.
- No more than 10% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

9. Prohibited Investment Vehicles and Practices

- State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.
- In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes,

Dated January 19, 2021

- or mortgage derived interest-only strips is prohibited.
- Investment in any security that could result in a zero interest accrual if held to maturity is prohibited. Under a provision sunsetting on January 1, 2026, securities backed by the U.S. Government that could result zero- or negative-interest accrual if held to maturity are permitted.
- Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
- Purchasing or selling securities on margin is prohibited.
- The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.
- The purchase of foreign currency denominated securities is prohibited.

10. Investment Pools/Mutual Funds

The City shall conduct a thorough investigation of any pool or mutual fund prior to making an investment, and on a continual basis thereafter. The Treasurer shall develop a questionnaire which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how

often the securities are priced and the program audited.

- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

11. 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.

12. Delivery, Safekeeping and Custody

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

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 in the City's name. Bearer instruments shall be held only through third party institutions and all investment officials will be bonded. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by the City from the custodian listing all securities held in safekeeping with current market data and other information.

The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) money market funds and mutual funds, since the purchased securities are not deliverable.

Dated January 19, 2021

13. Risk Management and Diversification

Mitigating Credit Risk in the Portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The City will mitigate credit risk by adopting the following strategies:

- The diversification requirements included in the “Authorized Investments” section of this policy are designed to mitigate credit risk in the portfolio.
- No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.
- The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or the City’s risk preferences.
- If securities owned by the City are downgraded by an NRSRO to a level below the quality required by this investment policy, it will be the City’s policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.
- If a security is downgraded, the Finance Officer will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.
- If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the City Manager.

Mitigating Market Risk in the Portfolio

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The City recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The City will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The City further recognizes that certain types of securities, including variable rate securities, securities with principal pay downs prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The City, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The City will maintain a minimum of six months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements.
- The maximum percent of callable securities (does not include “make whole call” securities) in the portfolio will be 20%.
- The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.
- The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the City based on the City’s investment objectives, constraints and risk tolerances.

14. Review of the Investment Portfolio

The Finance Officer shall periodically, but no less than quarterly, review the portfolio to identify investments that do not comply with this investment policy and establish protocols for reporting major and critical incidences of

Dated January 19, 2021

noncompliance to the City Manager.

15. 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. Any such authorization must be received no less than 90 days before the initial investment.

16. 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.

17. Performance Standards and Evaluation

The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints, the state and local laws, ordinances, or resolutions that restrict investments, and the cash flow needs.

The Finance Officer shall monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s), which will be included in the monthly investment report. The Finance Officer shall select an appropriate, readily available index to use as a market benchmark.

18. 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.

19. 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. Shorthand market terminology for any obligation issued by a *government-sponsored entity (GSE)*, or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called "FreddieMac" issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "FannieMae," issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as "GinnieMae," issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASKED. The price at which a seller offers to sell a security.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER'S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

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

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since an issuer issues securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than \$250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than \$250,000 each, so that FDIC coverage is maintained.

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

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COST YIELD. The annual income from an investment divided by the purchase cost. Because it does not

give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

CURRENT YIELD. The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

DEBENTURE. A bond secured only by the general credit of the issuer.

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See modified duration).

FEDERAL FUNDS RATE. The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

FEDERAL OPEN MARKET COMMITTEE. A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

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 asset can be converted to cash.

LOCAL AGENCY INVESTMENT FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MARKING TO MARKET. The process of posting current market values for securities in a portfolio.

MATURITY. The final date upon which the principal of a security becomes due and payable.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100 basis point change in yields. Modified duration

is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO).

A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CD. A short-term debt instrument that 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. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

PREMIUM. The difference between the par value of a bond and the cost of the bond, when the cost is above par.

PREPAYMENT SPEED. A measure of how quickly principal is repaid to investors in mortgage securities.

PREPAYMENT WINDOW. The time period over which principal repayments will be received on mortgage securities at a specified prepayment speed.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

REALIZED YIELD. The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

REGIONAL DEALER. A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. 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 US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

VOLATILITY. The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.