



# **FYs 2015/16 – 2016/17**

# **INVESTMENT POLICY**

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# INLAND EMPIRE UTILITIES AGENCY

## FY 2015/16 INVESTMENT POLICY

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**INLAND EMPIRE UTILITIES AGENCY**

**FY 2015/16 INVESTMENT POLICY**

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## INLAND EMPIRE UTILITIES AGENCY INVESTMENT POLICY

### 1.0 POLICY

WHEREAS; The Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (California Government Code (CGC) § 53600.6 and 53630.1 (CGC §53600.6 and §53630.1) ;

WHEREAS; the legislative body of a local agency may invest surplus monies, not required for the immediate necessities of the local agency, in accordance with the provisions of CGC §5922 and CGC §53601 et seq.; and

WHEREAS; the Secretary/Treasurer or the Chief Financial Officer/Assistant General Manager (CFO/AGM) or the General Manager (GM) of the Inland Empire Utilities Agency (IEUA) shall biennially, or whenever there are recommended changes, whichever occurs first, prepare and submit a statement of investment policy and such policy, and any changes thereto, shall be considered by the legislative body at a public meeting (CGC §53646[a]).

NOW, THEREFORE, BE IT RESOLVED that the policy of IEUA is to invest funds in a manner which will provide: (i) the maximum security; (ii) the funds necessary to meet the daily cash flow demands of the IEUA; and (iii) the highest investment return while conforming to all statutes governing the investment of IEUA funds within the constraints of this Investment Policy.

### 2.0 SCOPE

This Investment Policy applies to all surplus monies of IEUA, as defined below.

*Surplus Monies* are defined, for the purpose of this Investment Policy, as all funds of the IEUA except:

- Monies held in Deferred Compensation Accounts

#### *Pooling of funds*

Except for cash in certain restricted and special funds, IEUA will consolidate cash and reserve balances from all funds to maximize investments earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

### 3.0 PRUDENCE

The standard of prudence to be used by designated investment signatories shall be the "prudent investor" standard (CGC §53600.3) and shall be applied in the context of managing an overall portfolio. Investments shall be made 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 IEUA, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Designated investment signatories, acting in accordance with written procedures, 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 deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

### 4.0 OBJECTIVES

As specified in CGC §53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds; the primary objectives, in priority order, of the investment activities shall be:

- A. *Safety*: Safety of principal is the foremost objective of the investment program. Investments made by IEUA shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required to prevent any potential loss on any individual security or depository from exceeding the income generated from the remainder of the portfolio.
- B. *Liquidity*: The investment portfolio will remain sufficiently liquid to enable IEUA to meet all operating requirements which might be reasonably anticipated.
- C. *Return on Investments (Yield)*: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:
  - 1. A security with declining credit may be sold to minimize loss of principal.
  - 2. A security swap would improve quality, yield, or target duration in the portfolio.
  - 3. Liquidity needs of the portfolio that requires the security to be sold.

## 5.0 DELEGATION OF AUTHORITY

Authority to manage the investment program is derived from CGC §53600, et seq. Management's responsibility for the investment program is hereby delegated for a one-year period by the legislative body, to the Chief Financial Officer/Assistant General Manager (CFO/AGM) or the General Manager (GM) who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked by the Board of Directors. The CFO/AGM or the GM shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to: safekeeping, wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. Such procedures shall include explicit delegation of authority to persons/positions responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this investment policy and the procedures established by the CFO/AGM or the GM and Administration. The CFO/AGM or GM shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates.

## 6.0 ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the placement of investments shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

## 7.0 AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The CFO/AGM or the GM shall maintain a list of approved and authorized financial institutions and brokers/dealers, selected on the basis of credit-worthiness, financial strength, experience, and capitalization.

In selecting the *financial institutions* for the deposit or investment of IEUA funds, the Secretary/Treasurer or the CFO/AGM or the GM's consideration shall include the depository's latest equity/asset ratio data and continue to monitor the financial institutions' credit characteristics and financial history throughout the period during which IEUA funds are deposited or invested.

The minimum qualifications for Agency approved depository/financial institutions include: (i) that they must be at least three (3) years old; have total assets in excess of ten (\$10) billion dollars; a core capital/asset ratio of 5 percent or better; or (ii) have total assets in excess of five hundred million dollars (\$500,000,000); and a core capital/asset ratio of 6 percent or better.

For the services of *banks, savings banks, and savings and loan associations, depository agreements* shall be prepared by the CFO/AGM or the GM and authorized representatives of the respective financial institutions for consideration and execution by the Secretary/Treasurer.

For *broker/dealer* services utilized to invest in government securities and other investments, the CFO/AGM or the GM is designated to select only brokers/dealers who are licensed and in good standing with the California Department of Securities (CDS), the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), or other applicable self-regulatory organizations. A periodic review of authorized brokers/dealers is essential to serve the IEUA's investment needs.

In order to improve quality services, expertise, and credit worthiness, the CFO/AGM or the GM may, on a selective basis, revise the approved list of brokers/dealers to update qualified brokers/dealers under the requirements of this Investment Policy.

The CFO/AGM or the GM shall maintain a list of approved brokers/dealers and submit the list to the Board of Directors as part of the periodic Investment Policy review process, or more frequently as requested by the Board.


Financial institutions/depositories, brokers/dealers and external investment managers, who do investment-related business with IEUA shall sign a Certificate of Understanding (see Attachment "A"). The Certification of Understanding states that the entity:

- A. Has read and is familiar with the IEUA's Investment Policy as well as applicable Federal and State Law;
- B. Agrees to notify IEUA in writing of any potential conflicts of interest;
- C. Meets the requirements as outlined in this Policy;
- D. Agrees to make every reasonable effort to protect the assets of IEUA from loss.

Annually, banks, savings bank, savings and loans associations, and authorized brokers/dealers will be requested to update information about their financial institutions. The required information will be supplied by responses to the attached questionnaires (see Attachment "B" for broker/dealers and Attachment "C" for banks and savings and loans), and provide IEUA with copies of published financial statements.

## **8.0 AUTHORIZED AND SUITABLE INVESTMENTS**

IEUA's investments are governed by Government Code. Within the investments permitted by the Government Code, IEUA seeks to further restrict eligible investments to the investments listed below. In the event an apparent discrepancy is found between this Investment policy and the Government Code, the more restrictive parameters will take precedence. Percentage holding limits listed in this section apply at the date an investment is purchased. Credit ratings, as shown, specify the minimum credit rating category required at the point of purchase without regard to specific modifiers, such as +/- or 1, 2, 3.

- 
- A.** United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.
  - B.** Federal agency 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.
  - C.** State Municipal Securities – Registered treasury notes or bonds issued by any of the 50 United States, 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 50 states. Securities eligible for investment under this paragraph shall be rated at least “A” by a Nationally Recognized Statistical Rating Organization (NRSRO). Short-term municipal securities eligible for investment shall be rated at or above the following credit agencies investment grade ratings; Sp-1 by Standard & Poor’s, F-1 by Fitch, and MIG-1 by Moody’s. These ratings for short term municipal securities signify the issuer’s strong capacity to pay principal and interest. Not more than 10 percent of IEUA’s funds shall be invested in state and local municipal securities.
  - D.** California Local Agency Municipal Securities – Bonds, notes, warrants or other evidence of indebtedness of a local agency or municipality located within the State of California, including debt securities issued by the IEUA. Securities eligible for investment under this paragraph shall be rated at least “A” by a NRSRO.
  - E.** Bank deposits, including demand deposit accounts, savings account, and market rate accounts, time deposits, and certificates of deposit in financial institutions located in California. Bank deposits are required to be collateralized as specified under Government Code § 53630 et. seq. Agreements allowing for the waiver of the collateral requirement for that amount of deposit covered by the Federal Deposit Insurance Corporation may be implemented provided the remainder of the deposit is secured by collateral as required by the Government Code.
  - F.** Negotiable Certificates of Deposit. Negotiable certificates of deposit (NCDs) issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. A minimum Industry Standard Definition (IDC) rating of 165 (Excellent) is required. All purchased shall not exceed the FDIC Insured Limit. The current FDIC Negotiable CD insured limit is \$250,000 (principal and interest). In combination with Placement Service CDs, a maximum of 30 percent of the portfolio may be invested in this category.
  - G.** Placement Service Deposits (PSD). Funds may be placed with a private sector entity that assists in the placement of deposit with eligible financial institutions located in the United States (CGC § 53601.8). The full amount of the principal and the interest



that may be accrued during the maximum term of each PSD shall at all times be insured by federal deposit insurance. In combination with Negotiable CDs, the maximum portfolio exposure to Placement Service Deposits is limited to 30 percent. The maximum investment maturity will be restricted to five years.

**H.** Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

(1) The entity meets the following criteria:

- (a) Is organized and operating in the United States as a general corporation;
- (b) Has total assets in excess of five hundred million dollars (\$500,000,000);
- (c) Has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

(2) The entity meets the following criteria:

- (a) Is organized within the United States as a special purpose corporation, trust, or limited liability company;
- (b) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond;
- (c) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city county, may invest no more than 25 percent of their moneys in eligible commercial paper. Local agencies, other than counties or a city and county may purchase no more than 10 percent of the outstanding commercial paper of any single issuer.

**I.** Local Agency Investment Fund (LAIF) investment pool is a voluntary program created by statute as an investment alternative for California's local governments and special districts and is under the administration of the State Governor of California. All securities purchased by LAIF are under the authority of Government Code § 16429 and 16480.4. As part of the Pooled Money Investment Account (PMIA), LAIF has oversight by the Pooled Money Investment Board (PMIB), and an in-house Investment Committee. LAIF also has oversight by the Local Agency Investment Advisory Board and is audited by the Bureau of State Audits on an annual basis.

Investment in California LAIF cannot exceed the maximum deposit per agency limit as set by the Local Agency Investment Fund.

- J.** Local Government Investment Pools (LGIP). Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code § 6509.7. To be eligible for purchase, the pool must meet the requirements of CGC § 53601(p). Total purchases shall not exceed \$20 million per account of surplus funds.

Whenever the IEUA has any funds invested in a LGIP, the Chief Financial Officer/AGM or the General Manager shall maintain on file a copy of the pools' current information statement to be reviewed on a periodic basis.

- K.** Money Market Funds - Investing solely in U.S. treasury securities and U.S. Government Agency securities, and repurchase agreements relating to the above obligations. To be eligible, these Money Market Funds must have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs. (B) Retained an investment advisor with not less than five years' experience and registered or exempt from registration with the SEC, with assets under management in excess of five hundred million dollars (\$500,000,000). No more than 20 percent of the portfolio may be invested in Money Market Funds and with no more than 10 percent invested in any one money market mutual fund.

- L.** Repurchase Agreements - IEUA may invest in repurchase agreements with banks and dealers with which IEUA has entered into a master repurchase agreement which specifies terms and conditions of repurchase agreements.

1) Transactions shall be limited to the primary dealers and banking institutions rated "A" or better by a NRSRO, or with a financially stable banking institution which the Agency has substantial banking relationship. The maturity of repurchase agreements shall not exceed 90 days. The market value of securities used as collateral for repurchase agreements shall be monitored daily by the CFO/AGM or GM and will not be allowed to fall below 102 percent of the value of the repurchase agreement plus the value of collateral in excess of the value of the repurchase agreement. In order to conform with the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct obligations of, or that are fully guaranteed as to principal and interest by the United States or any agency of the United States.

2) Not more than 40 percent of the portfolio may be invested in repurchase agreements and a security interest satisfactory to IEUA shall always be maintained in the securities subject to a repurchase agreement.

- M.** Medium Term Notes (MTN): MTNs defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, 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. Purchases in this category shall not exceed 10 percent of the portfolio and must be rated “A” or better by a NRSRO.

***Ineligible Investments:*** Investments not described herein, including but not limited to, reverse repurchase agreements and common stocks are prohibited from use in this portfolio. This Investment Policy further specifically disallows investments in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.

## **9.0 AUTHORIZED INVESTMENTS FOR BOND FUNDS**

Bond funds shall be invested in the securities permitted pursuant to Board approved bond documents. If the bond documents are silent as to the permitted investments, bond funds will be invested in the securities permitted by this policy. Notwithstanding the other provisions of this Investment Policy, the dollar portfolio, percentage, and term limitations listed elsewhere in the Investment Policy do not apply to bond funds. In addition to the securities listed in Section 8.0 above, bond funds may be invested in a structured investment product if approved by the CFO/AGM or GM.

## **10.0 SAFEKEEPING AND CUSTODY**

As required by CGC §53601 all security transactions entered into by IEUA shall be conducted on Deliver versus Payment basis. Delivery versus Payment or DVP basis means all securities purchased or acquired shall be delivered to IEUA by book entry, physical delivery, or third party custodial agreement. Investments in the state pool, local government investment pools, or money market funds are undeliverable, and therefore, not subject to the delivery or third party safe keeping requirements.

## **11.0 DIVERSIFICATION**

The Board of Directors recognize that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to minimize these risks. Investment signatories are expected to display prudence in the selection and/or approval of securities, as a way to minimize the risks present in the investment portfolio. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. Further, financial institutions which hold funds, deposited as investments, shall be subject to an investment limitation.

The Board of Directors acknowledges that from time to time certain situations may arise during which strict adherence to an inflexible investment policy may be overly restrictive. On a case by case basis, the Board of Directors may consider any pertinent information of such situations and may, by minute action, modify or waive, within the constraints of CGC

§53601 et seq., any of the provisions and/or restrictions of this Investment Policy.

The Secretary/Treasurer or the CFO/AGM or the GM shall periodically establish diversification guidelines, within the context of this policy, and strategies to control any risks of default, market price changes, and illiquidity.

## **12.0 TRADING OF SECURITIES**

A trade is the movement from one security to another and may be done for a variety of reasons, such as to increase yield, lengthen or shorten maturities, to take a profit, or to increase investment quality. The purchase and sale transaction and the sale transaction must each be recorded separately and any losses or gains on the sale must be recorded.

The Secretary/Treasurer or the CFO/AGM or the GM may obtain competitive bids from at least two brokers or financial institutions on all purchases of investment instruments primarily using “GFOA Yield Advantage” software when available. Competitive bids can be also obtained by other communication channels when necessary.

## **13.0 MAXIMUM MATURITIES**

Where no maturity limit is stated for an investment under Section 8.0, no investment shall be made in any security that at the time of the investment, has a term remaining to maturity in excess of five years unless the Board has granted express authority to make that investment either specifically or as part of a previous investment program no less than three (3) months prior to the investment. Any investment currently held at the time the investment policy is adopted which does not meet the new policy guidelines will 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 most current policy.

## **14.0 PORTFOLIO DURATION LIMITATION**

The weighted average duration of the entire portfolio shall not exceed three (3) years.

## **15.0 MONITORING CREDIT RATINGS**

The CFO/AGM or the GM shall monitor the ratings of all investments in their portfolios on a continuous basis and report all credit downgrades of portfolio securities to the Board in writing within 24 hours of knowledge of the event. If an existing investment’s rating drops below the minimum allowed for new investments made pursuant to this policy, the CFO/AGM or the GM shall also make a written recommendation to the Board as to whether this security should be held or sold prior to maturity.

## 16.0 REPORTING

The CFO/AGM or the GM shall submit to each member of the Board of Directors a monthly investment report. This report will include the elements of the quarterly report as recommended by CGC §53646, to include:

- a. Type of investment
- b. Name of institution
- c. Date of maturity
- d. Amount of deposit or cost of the security and the par value
- e. Current market value of all securities
- f. Rate of interest/earnings (yield)
- g. A monthly list of transactions

CGC §53646(b)(2),(3) recommends that the investment report must include a statement that (i) all investment actions executed since the last investment report have been made in full compliance with the Investment Policy or a Board of Directors' minute action (waiver) and, that (ii) IEUA will meet its expenditure obligations for the next six months. The CFO/AGM or the GM shall maintain a complete and timely record of all investment transactions in support of the above statement.

## 17.0 INTERNAL CONTROLS

The CFO/AGM or the GM is responsible for establishing and maintaining a control structure designed to ensure that the assets of the IEUA are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation and benefits require estimates and judgments by management.

An biennial independent review, or as needed to address recommended changes, by an external auditor to assure compliance with policies and procedures will be performed as part of the IEUA's annual audit.

## 18.0 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. In order to determine whether market yields are being achieved, the CFO/AGM or the GM shall identify comparable benchmarks to the portfolio investment duration, (e.g. 90-day US Treasury Bill, 6-month US Treasury Bill, average LAIF yield rate). This comparative analysis is included in investment report presented to the Board of Directors on a monthly basis.

## 19.0 POLICY REVIEW

This investment policy shall be reviewed regularly to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return and its relevance to current law and financial and economic trends. The Board shall be responsible for maintaining guidance over this investment policy to ensure that IEUA can adapt readily to changing market conditions, and approve any modification to the investment policy prior to implementation.

## 20.0 STATE LAW

The legislated authority of the IEUA's investments is covered in Section 53601, 53607, 53635, 53638, 53646, 53652, and 53653 of the Government Code. It is the policy of the IEUA to comply with the State laws governing its investments.

## 21.0 INVESTMENT POLICY ADOPTION

The Investment Policy shall be adopted by resolution of the Board of Directors of IEUA\*. Moreover, the Policy shall be reviewed whenever there are recommended changes or biennially, whichever occurs first, and modifications must be approved by the Board of Directors.

### ADOPTED AND APPROVED:

**Name:** Terry Catlin  
**Title:** President, Board of Director  
**Date:** June 17, 2015

*\* A Municipal Water District*

## APPENDIX 1: GLOSSARY OF CASH MANAGEMENT TERMS

### **ASK PRICE:**

The price at which securities are offered for sale; also known as offering price.

### **BASIS POINT:**

One hundredth of one percent (i.e. 0.01 percent).

### **BOND PROCEEDS:**

The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These moneys are used to finance the project or purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract.

### **BOOK VALUE:**

The value at which a debt security is shown on the holder's balance sheet. Book value is often acquisition cost plus/minus amortization and accretion, which may differ significantly from the security's current value in the market.

### **BROKER:**

A broker acts as an intermediary between a buyer and seller for a commission and does not trade for his/her own risk and account or inventory.

### **CALLABLE BOND:**

A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

### **CALTRUST:**

A Joint Powers Agency Authority created by local public agencies to provide a convenient method for local public agencies to pool their assets for investment purposes. CalTRUST is governed by a Board of Trustees made up of experienced local agency treasurers and investment officers. The Board sets overall policies for the program and selects and supervises the activities of the investment manager and other agents.

### **CERTIFICATE OF DEPOSIT (CD):**

A time deposit with a specific maturity evidenced by a certificate.

### **CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS):**

A private CD 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, 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 monies.

### **COMMERCIAL PAPER:**

A short-term, unsecured, promissory note with a fixed maturity of no more than 270 days. By statute, these issues are exempt from registration with the U.S. Securities and Exchange Commission.

### **CREDIT RISK:**

The risk to an investor that an issuer will default in the payment of interest and/or principal on a security and a loss will result.

### **CUSTODIAN:**

A bank or other financial institution that keeps custody of stock certificates and other assets.

### **DEALER:**

A dealer, as opposed to a broker, acts as a principal in all transaction, buying and selling for his own risk and account or inventory.

### **DELIVERY OF SECURITIES:**

There are two methods of delivery of securities; *Delivery versus Payment* and *Delivery versus Receipt*. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of signed receipt for the securities.

**DIVERSIFICATION:**

Dividing investment funds among a variety of securities offering independent returns.

**DURATION:**

A measure of the timing of the cash flows to be received from a given-fixed income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

**FACE VALUE:**

The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

**FAIR VALUE:**

The amount at which a security could be exchanged between willing parties, other than in a forced or liquidation sale. If a market price is available, the fair value is equal to the market value.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):**

A federal agency that insures bank deposits.

**FEDERAL FARM CREDIT BANK (FFCB):**

Government-sponsored institution that consolidates the financing activities of the Federal Land Banks, the Federal Intermediate Credit Banks and the Banks for Cooperatives. Its securities do not carry direct U.S. Government guarantees.

**FEDERAL FUNDS RATE:**

The rate of interest at which Federal funds are traded. This rate is considered to be the most sensitive indicator of the direction of interest rates, as it 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 Bank vis-à-vis member

commercial banks. Although the banks operate under federal charter with government supervision, the securities are not guaranteed by the U.S. Government.

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC or Freddie Mac):**

Established in 1970 to help maintain the availability of mortgage credit for residential housing. FHLMC finances these operations by marketing guaranteed mortgage certificates and mortgage participation certificates. Its discount notes and bonds do not carry direct U.S. Government guarantees.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae):**

FNMA 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. FNMA is a private stockholder-owned corporation. The corporation's purchases 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 securities do not carry direct U.S. Government guarantees.

**FEDERAL RESERVE SYSTEM:**

The central bank of the U.S. which consists of seven member Board of Governors, 12 regional banks, and about 5,700 commercial banks that are members.

**FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA):**

The Financial Industry Regulatory Authority (FINRA) is the largest independent regulator for all securities firms doing business in the United States. All told, FINRA oversees nearly 4,750 brokerage firms, about 167,000 branch offices and approximately 634,000 registered securities representatives.

**INTEREST ONLY STRIPS:**

The interest portion of a Treasury note or bond that has been stripped of its principal component through the commercial book-entry system.



**INTEREST RATE RISK:**

The risk of gain or loss in market values of securities due to changes in interest-rate levels. For example, rising interest rates will cause the market value of portfolio securities to decline.

**INVERSE FLOATER:**

Fixed income instrument whose coupon or interest rate is periodically reset according to a short term rate index such as LIBOR, or prime rate. Unlike the traditional floating rate instrument, however, the inverse floater's rate is set equal to a fixed rate minus the short-term rate index.

**INVESTMENT POLICY:**

A clear and concise statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

**INVESTMENT PORTFOLIO:**

A collection of securities held by a bank, individual, institution, or government agency for investment purposes.

**LIQUIDITY:**

An asset that can be converted easily and rapidly into cash with minimum risk on principal.

**LOCAL AGENCY INVESTMENT FUND (LAIF):**

An investment pool managed by the California State Treasurer. Local government units, with consent of the governing body of that agency, may voluntarily deposit surplus funds for the purpose of investment. Interest earned is distributed by the State Controller to the participating governmental agencies on a quarterly basis.

**MARKET TO MARKET:**

Current market price of a security.

**MARKET RISK:**

Systematic risk of a security that is common to all securities of the same general class (stocks, bonds, notes, money market instruments) and cannot be eliminated by diversification (which may be used to eliminate non-systematic risk).

**MARKET VALUE:**

The price at which a security is currently being sold in the market. See FAIR VALUE.

**MASTER REPURCHASE AGREEMENT:**

A written contract covering all future transactions between the parties to repurchase agreements and reverse repurchase agreements that establish 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 default by the seller-borrower.

**MATURITY:**

The date that the principal or stated value of a debt instrument becomes due and payable.

**MEDIUM-TERM NOTES (MTNs):**

Corporate notes, having any or all of the features of corporate bonds and ranging in maturity from nine months out to thirty years. The difference between corporate bonds and MTNs is that corporate bonds are underwritten.

**NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO):**

A rating organization designated by the SEC as being nationally recognized, such as Moody's Investor Service, Inc. (Moody's), Standard & Poor's (S&P), and Fitch Ratings (Fitch).

**NEGOTIABLE CERTIFICATES OF DEPOSIT:**

Time deposits issued by Federal Deposit Insurance Corporation (FDIC) insured banks and are underwritten by the Financial Industry Regulatory Authority (FINRA) registered Broker/Dealers. Also known as "DTC Eligible CDs" or "Brokered Deposits", this type of deposit is offered to investors by issuing institutions looking to raise liquidity and funding through the wholesale and institutional markets.

**OPEN MARKET OPERATIONS:**

Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the Federal Open Market Committee, (FOMC), in

order to influence the volume of money and credit in the economy. Purchases inject reserves into the banking system and stimulate growth of money and credit. Sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**PAR VALUE:**

The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in increments of \$1,000 per bond.

**PORTFOLIO:**

The collection of securities held by an individual or institution.

**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.

**PRINCIPAL:**

The face or par value of a debt instrument or the amount of capital invested in a given security.

**PRUDENT PERSON RULE:**

An investment standard: The way a prudent person of discretion and intelligence would be expected to manage the investment program in seeking a reasonable income and preservation of capital.

**RANGE BONDS:**

Bonds that accrue interest during a particular Interest Period at a fixed or variable rate if a specified index is within a specified range during a designated period of time or at a particular point in time. A Range Bond may not bear interest if the specified index is outside the specified range.

**RATE OF RETURN:**

- 1) The yield which can be attained on a security based on its purchase price or its current market price.
- 2) Income earned on an investment,

expressed as a percentage of the cost of the investment.

**REPURCHASE AGREEMENT (RP OR REPO):**

A holder of securities (e.g. investment dealer) sells these securities to an investor (e.g. the Agency) with an agreement to repurchase them at a fixed date. The security "buyer" (e.g. the Agency) in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the "buyer" 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.

**REVERSE REPURCHASE AGREEMENT (REVERSE REPO):**

A counter party (e.g. investment dealer) buys the securities from the holder of securities (e.g. the Agency) with an agreement to sell them back at a fixed date. The counter party in effect lends the seller (e.g. the Agency) money for the period of the agreement with terms of the agreement structured to compensate buyer.

**SAFEKEEPING:**

A service banks offer to clients for a fee, where physical securities are held in the bank's vault for protection and book-entry securities are on record with the Federal Reserve Bank or Depository Trust Company in the bank's name for the benefit of the client. As agent for the client, the safekeeping bank settles securities transactions, collects coupon payments, and redeems securities at maturity or, if called, on the call date.

**SWAP:**

An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount.

**SECURITIES AND EXCHANGE COMMISSION (SEC):**

Agency created by Congress to protect investors in securities transactions by administering securities legislation.



**SECONDARY MARKET:**

A market for the repurchase and resale of outstanding issues following the initial distribution.

**SECURITIES:**

Investment instruments such as notes, bonds, stocks, money market instruments and other instruments of indebtedness of equity.

**SPREAD:**

The difference between two figures or percentages. It may be the difference between the bid (price at which a prospective buyer offers to pay) and asked (price at which an owner offers to sell) prices of a quote, or between the amount paid when bought and the amount received when sold.

**UNDERWRITER:**

A dealer that purchased a new issue of municipal securities for resale.

**U.S. TREASURY OBLIGATIONS:**

Debt obligations of the U.S. Government sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less and are sold at a discount. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.

**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 BONDS:**

Long-term U. S. Treasury securities.

**TREASURY NOTES:**

Intermediate-term coupon-bearing U.S. Treasury securities having initial maturities from one year to ten years.

**WEIGHTER AVERAGE MATURITY (WAM):**

The average maturity of all the securities that comprise a portfolio, typically expressed in days of years.

**YIELD:**

The annual rate of return on an investment expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security.

**YIELD CURVE:**

Yield calculations of various maturities of instruments of the same quality at a given time to observe spread differences.

**ZERO-INTEREST BOND**

A bond on which interest is not payable until maturity (or early redemption), but compounds periodically to accumulate to a state maturity amount. Zero-interest bonds are typically issued at a discount and repaid at par upon maturity.

**CERTIFICATION OF UNDERSTANDING**

I hereby certify that I have personally read Inland Empire Utilities Agency's (IEUA) Investment Policy and the California Government Code pertaining to the investments of the IEUA.

I will disclose to the IEUA any potential risks or conflicts with the Investment Policy that might arise out of business transactions between my firm and the IEUA.

I will undertake reasonable efforts to prevent imprudent transactions involving funds of the IEUA and will endeavor to keep familiar with the IEUA's investment objectives and constraints, as they exist from time to time.

I will only offer investments for the IEUA's consideration that are in conformity to the IEUA's Investment Policy.

I attest to the accuracy of the responses to the IEUA's questionnaire.

NOTE: Completion of the attached questionnaire is only part of Inland Empire Utilities Agency's certification process and DOES NOT guarantee that the our financial institution will be guaranteed any portion of the investment business with Inland Empire Utilities Agency.

FIRM NAME \_\_\_\_\_

PRINTED NAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

DATE \_\_\_\_\_

**INLAND EMPIRE UTILITIES AGENCY**  
**OFFICE OF THE CHIEF FINANCIAL OFFICER/AGM OR GENERAL MANAGER**  
**BROKERS/DEALERS QUESTIONNAIRE AND CERTIFICATION**

*Please fill out form and return to Inland Empire Utilities Agency*

- 1. Name of Firm \_\_\_\_\_
  
- 2. Address \_\_\_\_\_  

*(Local)* *(National Headquarters)*

\_\_\_\_\_
  
- 3. Telephone No. \_\_\_\_\_
  
- 4. Primary Representatives:                                  Manager/Partner-In-Charge:  
Name \_\_\_\_\_    Name \_\_\_\_\_  
Telephone \_\_\_\_\_    Telephone \_\_\_\_\_  
Years in institutional sales \_\_\_\_\_                                  Years in institutional sales \_\_\_\_\_  
Years with firm \_\_\_\_\_    Years with firm \_\_\_\_\_
  
- 5. Are you a Primary Dealer in U.S. Government Securities?      Yes  No
  
- 6. Are you a Regional Dealer in U.S. Government Securities?    Yes  No
  
- 7. Are you a Broker instead of a Dealer?  
i.e., You DO NOT own positions of Securities?                                   Yes  No
  
- 8. What is the net capitalization of your firm? \_\_\_\_\_
  
- 9. What is the date of your fiscal year-end? \_\_\_\_\_
  
- 10. Is your firm owned by a holding company? If so, what is its name and net capitalization?  
\_\_\_\_\_  
\_\_\_\_\_
  
- 11. Please provide your wiring and delivery instructions. \_\_\_\_\_  
\_\_\_\_\_
  
- 12. Which of the following instruments are offered regularly by your local desk?  
 T- Bills         Treasury Notes/Bonds         Discount Notes         NCD's  
 Agencies (specify) \_\_\_\_\_
  
- 13. Which of the above does your firm specialize in marketing? \_\_\_\_\_  
\_\_\_\_\_

14. Please identify your most directly comparable Local Agency Clients in our geographical area:

Entity	Contact Person	Telephone	Client Since
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

15. What reports, transactions, confirmations and paper trail would we receive?  
\_\_\_\_\_

16. Please include samples of research reports or market information that your firm regularly provides to local agency clients.

17. What precautions are taken by your Firm to protect the interest of the public when dealing with government agencies as investors? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

18. Have you or your Firm been censored or punished by a regulatory State or Federal agency for improper or fraudulent activities, related to the sale of securities?  Yes  No

19. If yes, explain. \_\_\_\_\_

20. Attach certified documentation of your capital adequacy and financial solvency. In addition, an audited financial statement must be provided within 120 days of your fiscal year-end. (Copy of a Published Financial Statement)

21. Attach proof of Financial Industry Regulatory Authority (FINRA) certification.

22. Attach proof of California Department of Securities Registration.

23. Attach proof of Securities and Exchange Commission registration.

24. Attach proof of adequate insurance coverage.

25. Are you listed under GFOA Yield Advantage?  Yes  No

**INLAND EMPIRE UTILITIES AGENCY  
OFFICE OF THE CHIEF FINANCIAL OFFICER/AGM OR GENERAL MANAGER  
BANK QUESTIONNAIRE AND CERTIFICATION**

*Please fill out form and return to Inland Empire Utilities Agency*

1. Name of Firm \_\_\_\_\_
2. Address \_\_\_\_\_  

(Local)
(National Headquarters)

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3. Telephone No. \_\_\_\_\_
4. Primary Representatives:                      Manager/Partner-In-Charge:  
Name \_\_\_\_\_    Name \_\_\_\_\_  
Title \_\_\_\_\_    Title \_\_\_\_\_  
Telephone \_\_\_\_\_    Telephone \_\_\_\_\_
5. What are the total assets of the Bank/Savings and Loan? \_\_\_\_\_
6. What is the current net worth ratio? \_\_\_\_\_
7. What is the net worth ratio for the previous years? \_\_\_\_\_
8. What are your required capital ratios? \_\_\_\_\_  
A. Tangible capital ratios? \_\_\_\_\_  
B. Core capital ratio? \_\_\_\_\_  
C. Risk-based capital ratio? \_\_\_\_\_
9. What is the date of your fiscal year-end? \_\_\_\_\_  
A. Has there been a year during the past three years in which the Bank/Savings and loan did not make a profit? \_\_\_\_\_
10. Have you read the California Government Code §53630 through §53686 pertaining to all of the State's requirements governing the deposit of monies by local agencies?  
 Yes  No
11. Amounts above the FDIC insurance coverage must be collateralized with Government Securities. Where is the collateral for time deposits of the Bank/Savings and Loan held?  
\_\_\_\_\_
12. Has there been a period during the past five years when time deposits of the Bank/Savings and Loan have not been fully collateralized? If yes, Explain  
\_\_\_\_\_

13. What is the education level of the primary contact(s)? \_\_\_\_\_
14. How many years of related experience does the primary contact(s) have?  
\_\_\_\_\_
15. What other banking services would you be interested in providing Inland Empire Utilities Agency? \_\_\_\_\_
16. What transaction documents and reports would we receive? \_\_\_\_\_  
\_\_\_\_\_
17. What information would you provide to our Chief Financial Officer/AGM or General Manager? \_\_\_\_\_
18. Describe the precautions taken by your Bank/Savings and Loan to protect the interest of the public when dealing with government agencies as depositors of investors.  
\_\_\_\_\_  
\_\_\_\_\_
19. Please provide your Contract of Deposit of Monies pre-signed and sealed by your institution, as well as any signature cards that you may require.
20. Please provide your wiring instructions. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
21. Please provide your Bank/Savings and Loan most current audited financial statements. (Copy of Published Financial Statement).
22. Please attach biographical information for your representative.