LOCAL AGENCY WORKERS' COMPENSATION EXCESS
JOINT POWERS AUTHORITY
(LAWCX)

INVESTMENT POLICY

(Revisions Effective November 2, 2021)

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1.0 POLICY STATEMENT

The policy of the Local Agency Workers' Compensation Excess Joint Powers Authority (the "Authority") shall be to invest all funds under the Authority's control in a manner that complies with all laws of the State of California, including all applicable Government Code Sections including but not limited to Government Code Section 53601 and the policies of the Authority.

2.0 SCOPE OF POLICY

This Investment Policy (the "Policy") sets forth guidance for all financial assets and investment activities under the direction and control of the Authority. All financial assets and investment activities of the Authority are accounted for in one fund.

3.0 PRUDENCE

All persons authorized to make investment decisions on behalf of the Authority 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 agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

Investment officers acting in accordance with written procedures and the 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

The primary objectives, in priority order, of the Authority's investment activities shall be:

A. Safety: The primary objective of this Policy is to protect, preserve, and maintain cash and investments of the Authority. Preservation of capital is the primary objective of the Authority. Every investment transaction shall strive to avoid capital losses arising from securities default and/or broker/dealer default. To attain this objective, the portfolio will be diversified to avoid incurring unreasonable and avoidable risk regarding specific security types or individual financial institutions.

B. Liquidity: An adequate percentage of the portfolio will be maintained in liquid short-term securities which can be converted to cash as necessary to meet disbursement requirements. The liquidity requirements will be determined from time to time from projected cash flow reports. Investments will be made in securities with active secondary or resale markets. Securities with low market risk will be emphasized.

C. Return: Within the constraints of safety and liquidity, the highest and best return will be sought. The maximization of return will not transcend the objectives of capital preservation and the maintenance of adequate liquidity.

D. Public Trust: All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio, it must be recognized that occasional measured losses are inevitable and must be considered within the context of the overall investment objectives.

5.0 DELEGATION OF AUTHORITY

Authority to manage the Authority's investment program is derived from the Bylaws. Management responsibility for the investment program is hereby delegated to the Treasurer who shall assume full responsibility for transactions until the delegation of authority is revoked. Subject to review, the Executive Committee may renew the delegation of authority each year. The Treasurer may delegate the day-to-day placement of investments to an investment advisor, via written agreement with the Authority (as stated in Section 5.1, Investment Procedures). The Treasurer shall establish a system of written internal controls to regulate the Authority's investment activities, including the activities of the Authority and any subordinate officials acting on behalf of the Authority.

The delegated investment advisors, acting in accordance with written procedures and the 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.

5.1 INVESTMENT PROCEDURES

The Treasurer may delegate the day-to-day placement of investments to an investment advisor, via written agreement with the Authority. The investment advisor shall make all investment decisions and transactions in strict accordance with state law and this Investment Policy. The Treasurer or Executive Director shall have the authority to transfer any amount of funds for investment.

6.0 ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activities 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 Board of Directors any large personal financial/investment positions that could be related to the performance of the Authority's portfolio. When the Authority utilizes the services of an independent registered investment advisor under the Investment Advisers Act of 1940, the Authority will require the advisor to immediately notify the Authority if at any time during the term of the agreement it is not so registered or if its registration is suspended. The advisor also agrees to perform its duties and responsibilities under the investment advisory agreement with reasonable care. The advisor shall promptly notify the Authority in writing of any complaints or disciplinary actions filed against it, or any investment professional employed by it, who has performed any service with respect to the Authority's account in the 24 preceding months, by the United States, the New York Stock Exchange, the American Stock Exchange, the Financial Industry Regulatory Authority, any Attorney General or any regulatory agency or authority of any state of the United States, any department or agency or authority of the Government of the United States, or any governmental agency or authority regulating securities of any country in which the advisor is doing business.

7.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Authority shall require the investment advisor to maintain a list of financial institutions authorized to provide investment services in the State of California. These may include “primary” dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established. The Treasurer shall continue to monitor the credit characteristics and financial history of the financial institutions throughout the period in which Authority funds are deposited or invested. An investment grade commercial rating or bank watch may be used to accomplish this objective. When engaging the services of an investment advisor, it is recognized that the investment advisor will establish and maintain its own criteria for selecting broker/dealers and financial institutions.

8.0 AUTHORIZED AND SUITABLE INVESTMENTS

Sections 53600 et. seq. of the California Government Code provides basic investment limits and guidelines for government entities. Within the investments permitted by the Government Code, the Authority seeks to further restrict eligible investments as provided below. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters shall take precedence. Individuals authorized to make investment decisions shall invest Authority moneys as directed by this Policy and only in the investments specifically authorized in this section. The following sections define each approved investment type.

1. 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 Authority may invest in U.S. Treasuries.

2. 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.

   There are no limits on the dollar amount or percentage that the Authority may invest in U.S. Agency or government-sponsored enterprise obligations.

3. Obligations issued by (1) the State of California or any local agency within the state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or local agency, or by a department, board, agency, or authority of the state or local agency or (2) 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. Obligations permitted under this subdivision shall be rated in a rating category of “A” or its equivalent or higher by a Nationally Recognized Statistical Rating Organization (“NRSRO”). Purchases of the obligations described in this subdivision may not exceed 30 percent of the Authority’s portfolio. No more than 5 percent may be invested in any one issuer. Bonds issued to address unfunded pension liabilities, known as “Pension Obligation Bonds,” are not permitted.

4. Negotiable certificates of deposit or deposit notes issued by a nationally or state-charted 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. Eligible investments shall be rated in a rating category of “A” for long-term, “A-1” for short-term, their equivalents, or better by an NRSRO.

Purchases of negotiable certificates of deposit may not exceed five years in maturity or 30 percent of the Authority's investment portfolio. No more than 5 percent may be invested in any one issuer.

5. Banker's acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank, the short-term paper of which is rated "A-1" or higher, or the equivalent, by an NRSRO.

   Purchases of banker's acceptances may not exceed 180 days maturity or 40 percent of the Authority's investment portfolio.

6. Commercial paper rated in the highest ranking or of the highest letter and number rating, as provided by an NRSRO. The entity that issues the commercial paper must meet all of the following conditions in either paragraph a or paragraph b:

   a. The issuing corporation must be organized and operating within the United States, having total assets in excess of $500 million, and has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.

   b. The issuing corporation must be organized within the United States as a special purpose corporation, trust, or limited liability company, have program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond, and have commercial paper that is rated "A-1" or its equivalent or better by an NRSRO.

   Purchases of eligible commercial paper may not exceed 270 days maturity and may not exceed 25 percent of the Authority's investment portfolio.

7. Repurchase Agreements are subject to the following collateral restrictions: Only U.S. Treasury securities or Federal Agency securities, as described in 8.1 and 8.2 will be acceptable collateral. All securities underlying repurchase agreements must be delivered to the Authority's custodian bank versus payment or be handled under a tri-party repurchase agreement. The Authority or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to repurchase agreement. The market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities, and the value shall be reviewed on a regular basis and adjusted no less than weekly. Market value of underlying collateral must be reviewed regularly or each time there is a substitution of collateral.

   The Authority may enter into repurchase agreements only with primary dealers in U.S. Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York. If a repurchase agreement is purchased, a Master Repurchase Agreement will be signed and maintained with the bank or dealer. Reverse repurchase agreements are not permitted.

   Purchases or repurchase agreements may not exceed one year in maturity.

8. Medium-term corporate notes 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 U.S. or any state and operating within the U.S. shall be permitted. Medium-term corporate notes shall be rated in a rating category

of “A” or its equivalent or better by an NRSRO.

Purchases or medium-term corporate notes may not exceed five years in maturity or 30 percent of the Authority’s investment portfolio.

9. United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), (also collectively referred to as “government instrumentalities”), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA” or its equivalent or better by at least one NRSRO.

   Purchases of the obligations authorized by this subdivision may not exceed 30 percent of the Authority’s investment portfolio.

10. A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of "AAA" or its equivalent by an NRSRO and have a maximum remaining maturity of five years of less. Purchase of securities authorized by this subdivision may not exceed 20 percent of the Authority's investment portfolio.

11. Local Agency Investment Fund (LAIF) - There is no limit on the dollar amount or percentage that the Authority may invest in LAIF, subject to the statutory deposit limit imposed by LAIF.

12. California Asset Management Program (CAMP) – A California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California. CAMP must be rated “AAAm” or its equivalent by an NRSRO to be eligible for investment of Authority funds. There are no limits on the dollar amount or percentage that the Authority may invest in CAMP.

13. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.) and that maintain a stable daily net asset value (NAV) per share of $1.00. To be eligible for investment pursuant to this subdivision, these companies shall either: (1) have attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs or (2) have 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 $500,000,000.

    The purchase price of shares of beneficial interest purchased shall not include any commission that the companies may charge and shall not exceed 20 percent of the Authority’s investment portfolio.

Credit criteria listed in this section refers to the credit of the issuing organization at the time the security is purchased. When engaging the services of an investment advisor, in the event of a downgrade to a rating category lower than the minimum requirement, the investment advisor shall contact the Treasurer to notify of the downgrade and advise a course of action.

9.0 INVESTMENT POOLS AND MONEY MARKET FUNDS

Participation in LAIF, the CAMP Cash Reserve Portfolio, and money market funds (described in sections 8.11, 8.12, and 8.13 above) are subject to continuing review of their respective annual reports as well as application of additional criteria developed by the Association of Public Treasurers' of the United States and Canada (APT US&C.) Note that such investment vehicles may invest in instruments not specified in the Authority's Policy. Such investments do not exclude such investment vehicles from the Authority's list of allowable investments provided each investment vehicle's investment policy restricts investments to securities as set forth in the California Government Code, and the investment vehicle's management provides reporting that allows the Treasurer to adequately judge the risk inherent in the portfolio. Such reporting shall be available on a quarterly basis.

10.0 SAFEKEEPING AND CUSTODY

All Authority investments shall have the Authority as depositor and registered owner and shall be kept in the custody of the Authority or the trust department of its designated third party institution for safekeeping. When the Authority investments are in safekeeping of third parties, the Authority shall have on file from its designated third party, a written statement that the Authority has a satisfactory title or interest in all securities held in the trust department. The trust department shall be required to send the Authority a monthly statement designating securities are being kept, the monthly income there from, and their current value. The Authority shall have access to buy and sell securities, if held for safekeeping, independent of any broker. All security transactions, excluding FDIC-insured deposits, but including collateralized repurchase agreements shall be executed using the delivery vs. payment procedure.

11.0 DIVERSIFICATION

The Authority will diversify its investments to avoid incurring unreasonable risk regarding specific security types or individual financial institutions. Excluding U.S. Treasury obligations, federal agency/GSE obligations, obligations of International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the Inter-American Development Bank (IADB), CAMP, LAIF, and money market funds, no more than 5 percent of the portfolio may be invested in any one institution. The maximum percentages/amounts are determined at time of purchase and amount refers to market value.

The Authority recognizes 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 control risk. Investment advisors are expected to display prudence in the selection of securities as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. As needed, the Treasurer and Investment Advisors shall periodically meet with the Executive Committee to establish guidelines and strategies to control credit risk, market risk, and liquidity.

12.0 MAXIMUM MATURITIES

To the extent possible, the Authority will attempt to match its investments with anticipated cash flow requirements. The maximum terms listed in Section 8.0, Authorized and Suitable Investments, shall be used. Under no circumstances shall any investment be made with a legal, final maturity of more than five years unless a longer maturity is expressly authorized by the Board of Directors and within the prescribed time frame for the approval (no less than three months prior to the investment per Government Code Section 53601).

In accordance with the stipulations above, the purchase of U.S. Treasury obligations, U.S. federal agency/Government Sponsored Enterprise (GSE) obligations, and municipal obligations with maturities in excess of five years are permitted. Approval for purchases of these longer-dated securities as part of the Authority's investment program was granted by the Board of Directors at the November 3, 2020 meeting.

13.0 INTERNAL CONTROLS

The Treasurer shall promulgate a system of internal controls to prevent losses of public funds arising from fraud, error, misrepresentations of third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Authority. The most important controls are: control of collusion; separation of duties; separation of transaction authority from accounting and bookkeeping; custodial safekeeping; delegation of authority; limitations regarding securities losses and remedial action; written confirmation of telephone transactions; minimizing the number of authorized investment officials; and documentation of transactions and strategies. An annual review of controls shall be made by the Authority's independent financial auditor.

14.0 PERFORMANCE STANDARDS

The Authority's portfolio shall be structured to achieve a market-average rate of return through various economic cycles, commensurate with the investment risk constraints and the cash flow needs. The benchmark for "market-average rate of return" shall be the rate of return of an appropriate market-based index.

14.1 MARKET-AVERAGE RATE OF RETURN (BENCHMARK)

The Authority's investment strategy is active. Given this strategy, the basis used by the Treasurer to determine whether a "market-average rate of return" is being achieved shall be to compare the total return performance of the Authority's investment portfolio to the total return performance of an appropriate market-based index, which will serve as the performance benchmark. The performance benchmark shall be determined by the Board of Directors and shall reflect the Authority's risk/return objectives, within the constraints of the duration of its projected liabilities.

15.0 REPORTING

The Authority's Treasurer shall submit an investment report to the Board of Directors semi-annually and shall submit an investment report to the Executive Committee at each scheduled meeting.

The reports shall include the following information for each individual investment:

- Type of investment instrument (i.e., Treasury Bill, medium-term note)
- Issuer name (i.e., General Electric Credit Corp.)
- Yield to maturity at cost
- Purchase date (trade and settlement date)
- Maturity date
- Purchase price
- Par value
- Coupon rate
- Credit rating of each security
- Amortized cost

- Current market value for securities with maturity greater than 12 months
- Overall portfolio yield based on cost
- Monthly lists of investment transactions

Annually, the investment advisor shall provide a report to the Board of Directors that includes comments on the fixed-income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies.

16.0 INVESTMENT POLICY ADOPTION

The objectives and the performance of the portfolio will be reviewed annually by the Treasurer, who will submit to the Board of Directors recommendations for changes, if any, to the Investment Policy. Any modifications made thereto must be approved by the Board of Directors.

GLOSSARY

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASKED: The price at which securities are offered.

ASSET-BACKED SECURITIES ("ABS"): An asset-backed security (ABS) is a security whose income payments and hence value is derived from and collateralized (or "backed") by a specified pool of underlying assets which are receivables. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can comprise common payments credit cards, auto loans, mortgage loans, and other types of assets. Interest and principal is paid to investors from borrowers who are paying down their debt.

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

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

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

BROKER: An individual who brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CDs are typically negotiable.

COLLATERAL: Securities, evidenced 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: Short term, unsecured, promissory note issued by a corporation to raise working capital.

COUPON: (1) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (2) A certificate attached to a bond evidencing interest due on a payment date.

DELIVERY VERSUS PAYMENT: 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 a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

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

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

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds to provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing-related assets of its members who must purchase stock in their district bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA (or "Fannie Mae"), like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. 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 assumes and guarantees that all security holders will receive timely payment of principal and interest.

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

GOVERNMENT INSTRUMENTALITIES: Formed by two or more central governments with the purpose of promoting economic development for the member countries. These government instrumentalities (also referred to as "supranationals") finance their activities by issuing debt. Similar to the government bonds, the bonds issued by these institutions are considered direct obligations of the issuing nations and have a high credit rating. Effective January 1, 2015, Assembly Bill 1933 added bonds issued by the International Bank for Reconstruction and Development, the International Finance Corporation, and the Inter-American Development Bank to the permitted investments listing in the California Government Code (please see section 8.9 of this Policy for more information).

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages.

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

MARKET-AVERAGE RATE OF RETURN: The Authority's portfolio shall be structured to achieve a "market-average rate of return" through various economic cycles, commensurate with the investment risk constraints and cash flow needs. The Treasurer will compare the total return performance of the Authority's portfolio to its selected benchmark to determine whether a "market-average rate of return" is achieved.

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

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

MEDIUM-TERM CORPORATE NOTES: Debt obligations issued by corporations and banks, usually in the form of unsecured promissory notes. These are negotiable instruments that can be bought and sold in a large and active secondary market. For the purposes of California Government Code, the term "Medium Term" refers to a maximum remaining maturity of five years or less. They can be issued with fixed- or floating-rate coupons, and with or without early call features, although the vast majority are fixed-rate and non-callable. Corporate notes have greater risk than Treasuries or Agencies because they rely on the ability of the issuer to make payment of principal and interest.

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

NATIONALLY RECOGNIZED STATISTICAL RATINGS ORGANIZATION ("NRSRO"): A credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (the "SEC") permits other financial firms to use 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. A credit rating agency must apply to the SEC for registration as an NRSRO, and the SEC's Office of Credit Ratings administers the SEC's rules relating to NRSROs, including monitoring the activities of the NRSROs and conducting examinations of NRSROs to assess and promote compliance with statutory requirements. As of September 2020, there were nine NRSROs. Of these nine, the three most prominent are Fitch, Inc., Moody's Investors Service, Inc., and Standard & Poor's Ratings Services.

NEGOTIABLE CERTIFICATES OF DEPOSIT: Large-denomination CDs issued at face value and typically pay interest at maturity, if maturing in less than 12 months. CDs that mature beyond this range pay interest semi-annually. Negotiable CDs are issued by U.S. banks (domestic CDs), U.S. branches of foreign banks (Yankee CDs), and thrifts. There is an active secondary market for negotiable domestic and Yankee CDs. However, the negotiable thrift CD secondary market is limited. Yields on CDs exceed those on U.S. treasuries and agencies of similar maturities. This higher yield compensates the investor for accepting the risk of reduced liquidity and the risk that the issuing bank might fail. California State law does not require the collateralization of negotiable CDs.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer). See definitions for "Asked" and "Bid".

PORTFOLIO: Collection of securities held by an investor.

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

PRUDENT INVESTOR STANDARD: An investment standard. The "prudent investor standard" is established in California Government Code 53600.3, and it is also a Government Finance Officers' (GFOA) best practice to include this standard in the Investment Policy of a public agency. As described in Section 3.0 of this Policy, this standard adds a level of professional responsibility to those individuals to whom investment authority is delegated. Further, it provides those individuals operating in accordance with its mandates a certain level of legal protection.

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

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

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

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, etc.) and Corporations, which have embedded options (e.g., call features, step-up coupons, floating-rate coupons, and derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the embedded options, and shifts in the shape of the yield curve.

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 coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to ten years.

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

YIELD: The rate of annual income return on an investment, expressed as a percentage. (1) Income yield is obtained by dividing the current dollar income by the current market price for the security. (2) Net yield or yield to maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.