FY 2009
Statement of Investment Policy

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Table of Contents

I. Introduction 4

II. Objectives 4

III. Use of State Investment Guidelines 5

IV. Delegation of Authority 5

V. Investment Advisory Committee 6

VI. Investment Policy Adoption 6

VII. Reporting 6

- A. Monthly 6
- B. Annual 7
- C. Other Reporting 7

VIII. Investment Instruments 8

- A. United States Treasury Notes, Bonds, Bills, or Certificates of Indebtedness 9
- B. Federal Agency or United States Government-Sponsored Enterprise (GSE) Obligations, ... 10
- C. Prime Banker's Acceptances (BA) 11
- D. Commercial Paper 12
- E. Negotiable Certificates of Deposit 13
- F. Repurchase Agreements or Reverse Repurchase Agreements 14
- G. Medium-Term Notes (MTN) 16
- H. Mutual Funds 17
- I. Money Market Funds 18
- J. Asset-Backed Corporate Notes 19
- K. County Agency Investment Fund; 20
- L. State of California Local Agency Investment Fund (LAIF) – 20
- M. Certificates of Deposit 21

IX. Prohibited Investments 22

X. Internal Controls 22

XI. Evaluation of Investment Officer Actions 23

XII. Bond Proceeds 23

XIII. Credit Downgrade 23

XIV. Rating Agency Changes 23

XV. Banks and Security Dealer Selection 24

XVI. Maturity and Diversification 24

XVII. Risk Tolerance 26

XVIII. Safekeeping and Custody 27

I. Introduction

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment process.

The initial step toward a prudent investment policy is to organize and formalize investment-related activities. Related activities which comprise good cash management include accurate cash projection, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations, and short-term borrowing program which coordinates working capital requirements and investment opportunity. In concert with these requirements are the many facets of an appropriate and secure short-term investment program.

It is intended that this policy covers all short-term operating funds and investment activities under the direct authority of the City.

A. Included – Funds included in this policy are described in the City's annual financial report, and include: General Fund, Special Revenue Funds, Capital Projects Funds, Enterprise Funds, Internal Service Funds, Fiduciary Funds, Redevelopment Agency Funds, and Housing Finance Agency Funds. The investment policy applies to all transactions involving the financial assets and related activity of the foregoing funds.

B. **Excluded** – The following funds are excluded from the policy: Deferred Compensation Fund assets and investments, whereas investments of these monies are directed by each employee in accordance with the rules of the Deferred Compensation Plan of the City; and employer and employee deposits into both the PARS and PERS Fund.

C. **Other excluded funds** - Monies held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of the City, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements may be invested in accordance with the ordinance, resolution, indenture or agreement approved by the City Council which govern the issuance of those bonds, or lease installment sale, or other agreement, rather than this Statement of Investment Policy.

II. Objectives

The City's primary investment objective is to achieve a reasonable rate of return on public funds while minimizing the potential for capital losses arising from market changes or issuer default. Although the generation of revenues through interest earnings on investments is an appropriate City goal, the primary consideration in the investment of City funds is capital preservation in the overall portfolio. As such, the City's yield objective is to achieve a reasonable rate of return on City investments rather than the maximum generation of income, which could expose the City to unacceptable levels of risk.

In managing the City Of Hayward's Investment Portfolio, the City's primary objectives are safety, liquidity and yield.

1. **Safety** of principal is the foremost objective of the City, followed by liquidity and yield. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.

2. **Liquidity** - The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. This need for investment liquidity may be tempered to the extent that the City is able to issue short-term notes to meet its operating requirements.

3. **Yield** - The investment portfolio shall be managed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow requirements, and state and local law, ordinances or resolutions that restrict the placement of short-term funds. Investment decisions should not incur unreasonable investment risks in order to obtain current investment income.

4. **Goal Yield** - The investment portfolio shall be managed with the objective of regularly exceeding by 50 basis points, the average of three-month and six-month U.S. Treasury Bill rates for the equivalent period. These indices are considered benchmarks for risk-less investment transactions and therefore comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

5. **Diversification** - The City's investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks associated with concentrating investments in specific security types or in individual financial institutions.

While the City will not make investments for the purpose of trading or speculation as the dominant criterion, the Finance Director shall seek to enhance total portfolio return by means of active portfolio management. The prohibition of speculative investments precludes pursuit of gain or profit through unusual risk and precludes investments primarily directed at gains or profits from conjectural fluctuations in market prices. However, as long as the original investments can be justified by their ordinary earning power, trading in response to changes in market value or market direction is a requirement of active portfolio management.

III. Use of State Investment Guidelines

Government Code Sections 16481.2, 53601, 53607, 53635, and 53646 of the State of California regulate the investment practices. It is the policy of the City of Hayward to use the State's provisions for local government investments as the base for developing and implementing the City's investment policies and practices.

IV. Delegation of Authority

In accordance with Section 53607 of the California Government Code, the responsibility for conducting the City's investment program is delegated to the Finance Director, who has established

written procedures for the operation of the investment program, consistent with this investment policy, which also govern delegation of authority for all investment activities.

V. Investment Advisory Committee

The City Manager will appoint an Investment Advisory Committee (IAC) for the purpose of overseeing the implementation of the City's investment program and assuring it is consistent with the investment policy as approved by the Council. The IAC shall consist of the Assistant City Manager, Finance Director, City Attorney, a representative of California State University, East Bay, a member of the financial community, and two department heads chosen by the City Manager.

The IAC shall meet at least quarterly to determine general strategies and to monitor results. The committee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, potential risks to the City's funds, approval of authorized financial institutions, and the goal rate of return on the investment portfolio. Written investment procedures must be approved by the IAC.

VI. Investment Policy Adoption

The City's investment policy shall be formally reviewed and approved by the Investment Advisory Committee, not more than 120 days after the beginning of each fiscal year; and, thereafter shall be reviewed and approved by the City Council at a public meeting.

As required under Government Code Sections 16481.2 and 53646, the Statement of Investment Policy will be reviewed by the Council annually.

VII. Reporting

The following investment activity reports will be completed.

A. Monthly

Within 30 days of the end of each month, the Finance Director shall submit a monthly investment report to the City Manager and the City Council and shall provide copies to the Investment Advisory Committee (GC 53607).

The text of the monthly report shall highlight key aspects of information contained in the investment report schedules, and inform readers of economic conditions affecting the portfolio. The report will present recent investment performance and future investment strategy; disclose any perceived threats to portfolio quality, security or liquidity; compare the average portfolio investment yield with the portfolio goal yield.

Graphs, charts or schedules of the monthly report shall itemize the month's investment purchases, sales and maturities and indicate their effect on portfolio value. The report will itemize all investments and deposits in the portfolio by investment or deposit category, providing essential identifying characteristics for each investment or deposit; indicate the percentage of the portfolio represented by each investment and by each investment category; show all par values, market values and costs at time of

purchase, together with each item's coupon or discount rate. The report will show the average earning rate for the portfolio, indicate distribution of the portfolio by category; and provide other relevant detail to accomplish disclosure of investment activity and portfolio status.

B. Annual

Within 90 days of the fiscal year end, the Finance Director shall present a comprehensive annual report on the investment program and investment activity. This report shall be presented to the Investment Advisory Committee. The annual report shall include twelve-month comparisons of return, shall suggest policies and improvements that might enhance the investment program, and include an investment plan for the ensuing fiscal year.

In conjunction with its review of the annual investment report, the Investment Advisory Committee shall review and reaffirm the Statement of Investment Policy of the City, whether or not specific policy modifications are suggested as part of the annual report.

Following the annual review of the Statement of Investment Policy by the Investment Advisory Committee, the Investment Policy shall be submitted to the City Council together with any changes recommended by the Investment Advisory Committee. The City Council shall consider any such recommended changes and annually reaffirm the Statement of Investment Policy at a public meeting of the City Council.

C. Other Reporting

The City shall comply with such requirements which may be enacted by amendment to the government code relating to investment practices which provide for transmitting to state agencies copies of annual reports and the Statement of Investment Policy.

VIII. Investment Instruments

A summary of authorized investment instruments is below. Following the summary, a detailed description of each investment instrument is provided.

INVESTMENT INSTRUMENT SUMMARY				
Security Type	**Maximum Maturity**	**Min Credit Quality**	**Authorized Investment Limit**	**Per Issuer Limit**
A. US Treasury Notes/Bills	4 Years	None	100%	100%
B. US Agencies – Fully Backed	4 Years	None	100%	100%
B. US Agencies – Sponsored	4 Years	None	50%	20%
C. Banker's Acceptance (BA)	180 days	A-1/P-1	40%	30%
D. Commercial Paper	270 days	A-1/P-1	15%	10%
E. Negotiable Certificates of Deposit	4 Years	A to AA	30%	20%
F. Repurchase Agreements	1 Year	None	25%	20%
F. Reverse Repurchase Agreement	92 Days	None	20%	20%
G. Medium Term Notes (MTN)	2-4 Years	A to AA	30%	20%
H. Mutual Funds	Limited to bond proceeds only.			
I. Money Market Fund	2 Years	AAA	20%	10%
J. Asset-backed Corporate Notes	4 Years	AA	20%	20%
K. County Treasurer Pool	None	None	15%	20%
L. LAIF	None	None	N/A	N/A
M. Certificates of Deposit	4 Years	None	25%	20%

The following sections describe individual investment types. The sections specify a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. A later increase or decrease in a percentage resulting from a change in values or assets shall not constitute a violation of that restriction. If subsequent to purchase, securities are downgraded below the minimum acceptable rating level, the securities shall be reviewed for possible sale within a reasonable amount of time after the downgrade (GC 53601.7 d).

A. **United States Treasury Notes, Bonds, Bills, or Certificates of Indebtedness**, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

Description: Treasury securities are government bonds issued by the United States Department of the Treasury through the Bureau of the Public Debt. They are the debt financing instruments of the U.S. Federal government, and are often referred to simply as Treasuries. There are four types of treasury securities: Treasury bills, Treasury notes, Treasury bonds, and Savings bonds. All of the Treasury securities (besides savings bonds) are very liquid and are heavily traded on the secondary market.

U.S. Treasury Securities	City Of Hayward	CA Govt Code 53601 (b)
Maximum Maturity	4 years	5 years
Credit Rating Limit	None	None
Authorized Investment Limit	100%	None
Per Issuer Limit	100%	None
Other Requirement	None	

B. Federal Agency or United States Government-Sponsored Enterprise (GSE) 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.

Description: The term "agency issues" is used to describe debt issues by Federal agencies in the United States. These special federal agencies are often created to channel credit to specific sectors of the economy (Freddie Mac for housing development for example). Although this debt is not explicitly insured by the federal government, it is assumed that the government will step forth if the agency nears default.

The government sponsored enterprises (GSEs) are a group of financial services corporations created by the United States Congress. Their function is to reduce interest rates for specific borrowing sectors of the economy, farmers, and homeowners. The mortgage borrowing segment is by far the largest of the borrowing segments that the GSEs operate in.

i. **U.S. Agencies (fully backed)**	**City Of Hayward**	**CA Govt Code 53601 (e)**
Maximum Maturity	4 years	5 years
Credit Rating Limit	None	None
Authorized Investment Limit	100%	None
Per Issuer Limit	100%	None
Other Requirement	None	
ii. **U.S. Agencies (Government Sponsored Enterprise (GSE))**	**City Of Hayward**	**CA Govt Code 53601 (e)**
Maximum Maturity	4 years	5 years
Credit Rating Limit	None	None
Authorized Investment Limit	50%	None
Per Issuer Limit	20%	None
Other Requirement	None	

C. Prime Banker's Acceptances (BA) otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.

Description - A short-term credit investment created by a non-financial firm and guaranteed by a bank. Acceptances are traded at a discount from face value on the secondary market. Banker's acceptances are very similar to T-bills and are often used in money market funds.

Banker's Acceptances	City Of Hayward	CA Govt Code 53601 (f), 53601.7
Maximum Maturity	Less than 180 days	Less than 180 days
Credit Rating Limit	A-1/P-1/F-1	A-1/P-1/F-1
Authorized Investment Limit	40%	40%
Per Issuer Limit	30%	30%
Other Requirement	• BAs which are eligible for purchase by the Federal Reserve System. • BAs that are issued by the top 50 banks in the world or any qualified depository in the State of California with a 4.5 percent equity to asset ratio.	

D. Commercial Paper (CP) of "prime" quality.

Description - An unsecured promissory note with a fixed maturity. Short-term corporate IOUs, generally due in less than a year and sold at a discount from face value.

Commercial Paper	City Of Hayward	CA Govt Code 53601 (g) 53635
Maximum Maturity	270 days or less	270 days or less
Credit Rating Limit	Highest letter and numerical rating as provided for by Moody's or Standard and Poor's rating services. (A-1/P-1/F-1)	A-1/P-1/F-1
Authorized Investment Limit	15%	25%
Per Issuer Limit	10%	10%
Other City Requirement	The entity that issues CP shall meet all of the following conditions in either paragraph 1 or 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 nationally recognized statistical-rating organization (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 nationally recognized statistical-rating organization (NRSRO).	

E. Negotiable Certificates of Deposit 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 state-licensed branch of a foreign bank.

Description - A CD with a very large denomination, usually $1 million or more. These are usually bought by institutional investors who are interested in low-risk investments. Negotiable certificates of deposit are usually in bearer form, and have secondary markets that are highly liquid.

Negotiable CD	City Of Hayward				CA Govt Code 53601 (h)
Maximum Maturity	6 mo to 1 year	1 -2 Years	2-3 Years	3-4 Years	5 Years
Credit Rating Limit	Min A-2/ P-2 rating	Min A rating	Min A+ rating	Min AA rating	Rated at least A-1/P-1/F-1 for short term, and A for long-term
Authorized Investment Limit	30%				30%
Per Issuer Limit	20%				None
Other Requirement	None				

F. Repurchase Agreements or Reverse Repurchase Agreements

Description - purchase of portfolio securities by an investor with a simultaneous agreement to resell the securities back to the seller on a specific future date, at the original purchase price, plus a negotiated interest payment. This transaction should be secured or made safe with collateralization.

Repurchase agreement means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.

Reverse repurchase agreement means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements.

Repurchase Agreement	City Of Hayward	CA Govt Code 53601 (i)
Maximum Maturity	1 Year	1 Year
Credit Rating Limit	Depends on underlying asset.	Rated at least A-1/P-1/F-1 for short term, and A for long-term
Authorized Investment Limit	20%	20%
Per Issuer Limit	20%	None
Other Requirement	• Securities purchased under the repurchase agreement shall be limited to the securities and qualifications listed in this policy, under Section VIII, Investment Instruments. • Investments in repurchase agreements may be made, on any investment authorized in this section, when the term of the agreement does not exceed one year. • Securities shall be marked-to-market daily, and shall be maintained at a value equal to or greater than the cash investment. • The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. • At the time of purchase the market value of the securities shall be in excess of the cash investment. • All securities purchased under a repurchase agreement shall be held by a third-party custodian or safekeeping agent. Transfer of underlying securities to a counterparty bank's customer book entry account may be used for book entry delivery, and a counterparty bank's trust department or safekeeping department may also be used for physical delivery of the underlying security. • The seller of repurchase securities shall not be entitled to substitute securities, except as authorized by the City. New or substitute securities should be reasonably identical to the original securities in terms of maturity, yield, quality, and liquidity.	

	• "Retail" repurchase agreements shall not be authorized for purchase. • As soon as possible a master repurchase agreement shall be executed between the City and all trading partners.

Reverse Repurchase Agreement	City Of Hayward	CA Govt Code 53601 (i)
Maximum Maturity	92 days	1 year
Credit Rating Limit	Rated at least A-1/P-1/F-1 for short term, and A for long-term. See limits for individual investment securities.	Rated at least A-1/P-1/F-1 for short term, and A for long-term
Authorized Investment Limit	20%	20%
Per Issuer Limit	20%	None
Other Requirement	• The security to be sold on reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale. • The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio. • The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security. • Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty by way of a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes • A written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security. • Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security may only be made upon prior approval of the governing body of the local agency and shall only be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency.	

G. Medium-Term Notes (MTN)

Description - Corporate promissory notes of 9-month to 15-year duration sold through dealers on a continuously offered basis. Like certificates of deposit, MTNs can be either collateralized or unsecured. Issuers include banks and savings and loans, insurance companies and corporations.

Medium Term Corporate	City Of Hayward			CA Govt Code 53601 (j)
Maximum Maturity	1 day to two years	Two to three years	Three to four years	5 Years
Credit Rating Limit	Minimum A rating	Minimum A+ rating	Minimum AA rating	A
Authorized Investment Limit	30%			30%
Per Issuer Limit	20%			N/A
Other Requirement	• Securities must be 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.			

H. Mutual Funds

Description - A mutual fund is simply a financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective. The mutual fund will have a fund manager who is responsible for investing the pooled money into specific securities (usually stocks or bonds). When you invest in a mutual fund, you are buying shares (or portions) of the mutual fund and become a shareholder of the fund.

Mutual Funds	City of Hayward	CA Govt Code 53601 (k), 53601.7
Maximum Maturity	180 days or less	None
Credit Rating Limit	The funds must be rated in the highest category of Moody's or Standard and Poor's, or must be administered by a domestic bank with long-term debt rated in one of the top two categories of Moody's or Standard and Poor's.	Rated at least A-1/P-1/F-1 for short term, and A for long-term
Authorized Investment Limit	20%	20%
Per Issuer Limit	10%	10%
Other Requirement	• Eligible for purchase, provided that use of mutual funds shall be **limited to bond proceeds** for which the City Treasurer finds a mutual fund's accounting methods particularly suited to the accounting requirements of the bond issue and helpful with arbitrage calculations.	

I. Money Market Funds

Description: Money market securities are essentially IOUs issued by governments, financial institutions and large corporations. These instruments are very liquid and considered extraordinarily safe. Because they are extremely conservative, money market securities offer significantly lower returns than most other securities.

Money Market Funds	City of Hayward	CA Govt Code 53601 (k)
Maximum Maturity	2 Years	None
Credit Rating Limit	AAA by two NRSROs.	Highest ranking by two NRSROs.
Authorized Investment Limit	20%	20%
Per Issuer Limit	10%	N/A
Other Requirement	• Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations (NRSRO) or retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than ten years' experience managing money market mutual funds with assets under management in excess of one billion dollars ($1,000,000,000). • The purchase price of shares of beneficial interest purchased shall not include any commission that the companies may charge. • The City shall invest only in Money Market Funds that have a policy of maintaining a constant daily net asset value per share of $1.00.	

A thorough investigation of any money market fund or investment pool is required prior to investing, as well as on an ongoing basis. The following information should be obtained and analyzed:

(i) A description of eligible investment securities.
(ii) A written statement of investment policies and objectives.
(iii) A description of interest calculation and their distribution, and the treatment of gains and losses.
(iv) A description of how the securities are safeguarded and how often the securities are priced and the program audited.
(v) Information about the size and frequency of deposits and withdrawals allowed, and how much notice is needed for withdrawals.
(vi) A schedule for receiving statements and portfolio listings.
(vii) A fee schedule, as well as how and when the fees are assessed.
(viii) The rating of the pool/fund.
(ix) Information about investment advisers, including registration with the Securities and Exchange Commission, length of experience and total assets under management.

J. Asset-Backed Corporate Notes

Description: Asset-backed securities are bonds backed by a pool of physical or financial assets that cannot easily be traded in their existing form. By pooling together a large portfolio of these illiquid assets they can be converted into instruments that may be offered and sold more freely in the capital markets. A financial security backed by a loan, lease or receivables against assets other than real estate and mortgage backed securities.

Asset-backed Corporate Notes	City Of Hayward		CA Govt Code 53601 (n)
Maximum Maturity	Bullet maturity = 4 years	Stated final maturity = 5 years	5 years
Credit Rating Limit	Issuer Rating of A or better.	Security Rating of AB themselves, AA or better.	AA
Authorized Investment Limit	20 % for AB securities alone.	40% for total of MTN and AB securities.	20%
Per Issuer Limit	10%		None
Other Requirement	• Mortgage-backed corporate notes shall not be invested in.		

K. County Agency Investment Fund;

County Agency Pool	City Of Hayward	CA Govt Code 53684
Maximum Maturity	N/A	N/A
Credit Rating Limit	Not rated	N/A
Authorized Investment Limit	15%	N/A
Per Issuer Limit	10%	N/A
Other Requirement	N/A	

L. State of California Local Agency Investment Fund (LAIF) –

Description: This is the fund in which the State of California pools its investments and the investments of California public agencies, which participate in L.A.I.F. An agency participates by depositing funds in the State pool.

LAIF	City Of Hayward	CA Govt Code 16429.1
Maximum Maturity	None	None
Credit Rating Limit	None	None
Authorized Investment Limit	$120 million	None
Per Issuer Limit	None	None
Other Requirement	• The current limit on any one City investment in this fund for the number of transactions (deposits or withdrawals) is limited to 15 per month. • The City maintains a total of three LAIF investments (up to $40 million each). • The City's participation in LAIF shall conform to State Regulation. • In general, it is the City's intention to use investment in LAIF as a temporary repository for short-term funds needed for liquidity purposes. • The Finance Director shall maintain on file appropriate information concerning LAIF's current investment policies, practices and performance. • The Finance Director shall maintain LAIF's requirements for participation, including, but not limited to, limitations on deposits or withdrawals and the composition of the portfolio.	

M. Certificates of Deposit

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

Certificates of Deposit	City Of Hayward	CA Govt Code 53601 (m)
Maximum Maturity	4 Year	5 Years
Credit Rating Limit	Rated at least A-1/P-1/F-1 for short term, and A for long-term	Rated at least A-1/P-1/F-1 for short term, and A for long-term
Authorized Investment Limit	25%	None
Per Issuer Limit	20%	None
Other Requirement	• In accordance with California statutes, City deposits including collateralized certificates of deposit shall not exceed the total paid-up capital (to include capital notes and debentures) and surplus of any depository bank, or the total of the net worth of any savings and loan association. • The money shall be deposited in any bank, savings association or federal association, state or federal credit union, or federally insured industrial loan company with the objective of realizing maximum return, consistent with prudent financial management, except that money shall not be deposited in any state or federal credit union if a member of the legislative body of a local agency, or any person with investment decision making authority of the administrative office, manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency, also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or supervisory committee, of the state or federal credit union.	

IX. Prohibited Investments

Consistent with California Government Code 53601.6, inverse floaters, range notes, mortgage derived interest-only strips, or any security that could result in zero interest accrual if held to maturity are specifically prohibited, except to the extent that they are shares of diversified management companies registered under the Investment Company Act of 1940. The City shall not purchase any security rated A-1 and or A+ or below if that security has been placed on "credit watch" for a possible downgrade by either Moody's Investor Services or Standard and Poor's. Investments not specifically approved by this policy are prohibited.

X. Internal Controls

The Finance Director shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City. Controls deemed most important include:

- **Clearly delegating authority to subordinate staff members.** Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

- **Custodial safekeeping.** Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.

- **Separating transaction authority from accounting and record keeping.** By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.

- **Delivery versus payment.** All trades where applicable will be executed by delivery vs payment (DVP). This ensures that securities are deposited in the eligible financial institution before the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

- **Avoiding physical delivery securities.** Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

- **Confirming telephone transactions for investments and wire transfers in writing.** Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures.

- **Developing wire transfer agreements with the lead bank or third party custodian.** This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

XI. Evaluation of Investment Officer Actions

All participants in the investment process shall act responsibly 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. Nevertheless, in a diversified portfolio, it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

The City adheres to the guidance provided by the prudent investor standard which obligates a fiduciary to ensure that investments shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which 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 statement 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 the liquidity and the sale of securities are carried out in accordance with the terms of this plan.

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.

XII. Bond Proceeds

The investment of bond proceeds will be made in accordance with applicable bond indentures.

XIII. Credit Downgrade

In the event that a financial institution or depository receives a Standard and Poor's, Moody's, Fitch or Keefe rating equal to or lower than Standard and Poor's rating of BBB, the Finance Director promptly shall make and implement an informed decision on whether to sell, withdraw from deposit or retain any security or deposit in the City portfolio issued or held by such affected financial institution or depository. The Finance Director may consult the Investment Advisory Committee on the action to be taken and shall advise its Chairman and Members of the final disposition of the matter either by memorandum or at the next Investment Advisory Committee meeting. If the meeting is scheduled more than a month after action is taken, the communication of disposition will be by memorandum.

XIV. Rating Agency Changes

In the event a security held by the City is the subject of a rate drop which brings it below accepted minimums specified herein, or the security is placed on negative credit watch, where downgrade could result in a rate drop below acceptable levels, the investment advisor who purchased the security will immediately notify the Finance Director of that fact.

The course of action to be followed will then be decided on a case by case basis, considering such factors as the reason for the rate drop, prognosis for recovery or further drop, and market price of the security. The City Council will be advised of the situation and intended course of action by e-mail or fax.

XV. Banks and Security Dealer Selection

The Investment Advisory Committee shall approve all financial institutions from which securities are purchased or sold.

In selecting financial institutions for the deposit or investment of City funds, the Finance Director shall consider the creditworthiness of institutions. The Finance Director shall continue to monitor financial institutions' credit characteristics and financial history throughout the period in which City funds are deposited or invested.

Only primary government securities dealers that report to the New York Federal Reserve shall be used for the purchase of repurchase agreements. (It is acknowledged that inclusion on the primary dealer listing of the Federal Reserve Bank of New York is not a guarantee of creditworthiness.)

Effective October 14, 1987, the City shall be prohibited from investing funds with any person who is knowingly or intentionally engaged in the development or production of nuclear weapons. Person is defined as any person, Private Corporation, institution or other entity, which is within the jurisdiction of the City of Hayward.

XVI. Maturity and Diversification

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

It is City policy to diversify the investment portfolio in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The following strategies and constraints shall apply:

1. **Maintains Liquidity** - Concern for liquidity shall be insured through practices that include covering the next vendor disbursement date and payroll date through maturing investments of U.S. Treasury bills.

2. **Staggered Maturities** - Portfolio maturities shall be staggered in a way that avoids undue concentration of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity.

3. **Maturity Diversification -** Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

4. **Specific Diversification Limitations –**

   a. The City shall not invest in instruments whose maturities exceed four years at the time of purchase. Instruments with maturities greater than two years shall be limited to (1) U.S. Treasury and agency obligations; (2) medium term notes rated "A" or its equivalent or better by at least one of the four national rating services identified above; (3) certificates of deposit rated "A", its equivalent or better by at least one of the four national rating services identified above; and (4) asset-backed notes as regards the "bullet" maturity, provided the "stated final" maturity is not more than five years. The average maturity of the City's short-term portfolio shall not exceed one year.

It is the intent that investments shall be managed in such a way that any market price losses resulting from interest-rate volatility would be offset by coupon income and current income received from the balance of the portfolio during a twelve-month period.

5. **Specific diversification limitation shall be imposed on the portfolio as follows:**

   a. No more than 40% of the portfolio may be invested beyond twelve months, and the average maturity of the portfolio shall not exceed 400 calendar days.

6. **The maximum percentage of the total portfolio that shall be placed at any one time in each of the categories of investment is summarized below.**

Security Type	Maximum Allowable Portfolio Percentage						
	100%	50%	40%	30%	25%	20%	15%
US Treasury Notes/Bills							
US Agencies – Fully Backed							
US Agencies – Government Sponsored Entities (GSE)							
LAIF							
Fully collateralized certificates of deposit	✓						
Fully collateralized medium term notes	✓						
Banker's Acceptance (BA)							
Negotiable Certificates of Deposit (NCD)				✓			
Medium Term Notes (MTN) (30 % alone, and no more than 40% when combined with AB category)				✓			
Asset-backed (AB) Securities (20% alone and no more than 40% when combined with the MTN category)						✓	
County Treasurer Pool							✓
Commercial Paper (CP)							✓

In accordance with California statutes, City deposits including collateralized certificates of

deposit shall not exceed the total paid-up capital (to include capital notes and debentures) and surplus of any depository bank, or the total of the net worth of any savings and loan association.

XVII. Risk Tolerance

The City 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 managers 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.

The Finance Director shall periodically establish guidelines and strategies to control risks of default, market price changes and illiquidity. All investment reports shall specifically address whether current investment results have been affected by any of the foregoing risks, and shall explain what actions investment officials have taken to control or correct for such risks.

In addition to these general policy considerations, the following specific policies will be strictly observed:

1. All investment funds will be placed directly with qualified financial institutions. The City will not deposit or invest funds through third parties or money brokers.

2. All transactions will be executed on a delivery versus payment basis.

3. The City will not enter into reverse repurchase agreements other than for cash flow requirements; nor shall it trade in options on future contracts unless, upon recommendation by the Investment Advisory Committee, such transactions are specifically authorized by the City Council.

4. A competitive bid process, utilizing financial institutions deemed eligible by the Investment Advisory Committee, will be used to place investment purchases. Based on annual evaluation, securities dealers, banks and other financial institutions will be dropped or continued on the eligibility list. The following criteria will be used in the evaluation:

    a. number of transactions competitively won
    b. prompt and accurate confirmation of transactions
    c. efficient securities delivery
    d. accurate market information account servicing

5. The Finance Director shall designate an official to manage investments and designate a second official to perform investment management during absences of the primary designee. The Finance Director shall insure that competent investment management is maintained and shall insure that, if both designated investment officials are replaced or are simultaneously absent, any temporary replacement(s) shall be closely supervised, indoctrinated in the requirements of this Statement of Investment Policy, and given written investment procedures regulating the authority to invest in maturities beyond six months by means of appropriate controls and restraining requirements.

6. In order to assist in identifying "qualified financial institutions," the Finance Director shall forward copies of the City's Investment Policy to those financial institutions with which the City is

interested in doing business and require written acknowledgement of the Policy.

XVIII. Safekeeping and Custody

To protect against potential fraud and embezzlement, the assets of the City shall be secured through third-party custody and safekeeping procedures.

The investment official shall be bonded to protect the public against possible embezzlement and malfeasance. Safekeeping procedures shall be reviewed annually by an independent auditor. The auditor may conduct surprise audits of safekeeping and custodial procedures.

All cash and securities in the City's portfolio, shall be held in safekeeping in the City's name by a third party bank trust department, acting as agent for the City under the terms of a custody agreement executed by the bank and the City.

All securities will be received and delivered using standard delivery versus payment (DVP) procedures; the City's safekeeping agent will only release payment for a security after the security has been properly delivered. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; and, (ii) money market mutual funds, since the purchased securities are not deliverable.