AGREEMENT FOR INVESTMENT ADVISORY AND MANAGEMENT SERVICES

This Agreement is made and entered into by and between the County of Mendocino, hereinafter referred to as "County", and Chandler Asset Management, Inc., hereinafter referred to as "Contractor" or "Chandler", collectively referred to as the "parties".

1. SERVICES. Subject to the terms and conditions set forth in this Agreement, Contractor shall provide to the County the services described in the Scope of Services attached hereto and incorporated herein as Exhibit A at the time and place and in the manner specified therein. In the event of a conflict in or inconsistency between the terms of this Agreement and Exhibit A – Scope of Services, Exhibit B – Fiscal Provisions and, Exhibit C – Compliance Provisions, the Agreement shall prevail.

2. TERM. This Agreement shall commence on July 1, 2023 and continue in full force and effect until terminated as hereinafter provided.

3. COMPENSATION. Contractor has been selected by the County to provide the services described hereunder in Exhibit "A" (Scope of Services), attached hereto.

The County shall compensate Contractor for services rendered, in accordance with the provisions set forth in Exhibit "B" (Fiscal Provisions), attached hereto, provided that Contractor is not in default under any provisions of this agreement. Compensation to Contractor is contingent upon appropriation of federal, state and county funds.

4. TERMINATION. This Agreement may be terminated by mutual consent of the parties or by County upon 30 days written notice to Contractor.

5. MODIFICATION. This Agreement may only be modified by a written amendment hereto, executed by both parties; however, matters concerning scope of services which do not affect the compensation may be modified by mutual written consent of Contractor and County executed by the County Auditor-Controller/Treasurer-Tax Collector.

6. NOTICES. All notices between the parties shall be in writing addressed as follows:

County of Mendocino
501 Low Gap Rd., Rm 1080
Ukiah, CA 95482
Attn: Chamise Cubbison

Chandler Asset Management
6225 Lusk Blvd
San Diego, CA 92121
Attn: Nicole Dragoo

7. EXHIBITS. The Agreement Exhibits, as listed below, are incorporated herein by reference:

Exhibit A – Scope of Services
Exhibit B – Fiscal Provisions
Exhibit C – General Provisions
Exhibit D – Insurance Requirements
Exhibit E – Investment Policy

8. TERMS AND CONDITIONS. Contractor warrants that it will comply with all terms and conditions of this Agreement and Exhibits, and all other applicable federal, state and local laws, regulations and policies.

9. INTEGRATION. This Agreement, including attachments, constitutes the entire agreement between the parties regarding its subject matter and supersedes all prior Agreements, related proposals, oral and written, and all negotiations, conversations or discussions heretofore and between the parties.

Executed at Ukiah, California on June 20, 2023.

COUNTY OF MENDOCINO	CONTRACTOR
Chamise Cubbison	
Auditor-Controller/Treasurer-Tax Collector	Chandler Asset Management, Inc

IN WITNESS WHEREOF

DEPARTMENT FISCAL REVIEW:

Chamise Cubbison 6/5/2023

DEPARTMENT HEAD DATE

Budgeted: ☐ Yes ☐ No ☒ N/A

Budget Unit: 2410

Line Item: 760524

Grant: ☐ Yes ☒ No

Grant No.: ______________________

COUNTY OF MENDOCINO

By: Glenn McGourty

GLENN McGOURTY, Chair
BOARD OF SUPERVISORS

Date: 06/20/2023

ATTEST:
DARCIE ANTLE, Clerk of said Board

By: ______________________
Deputy 06/20/2023

I hereby certify that according to the provisions of Government Code section 25103, delivery of this document has been made.

DARCIE ANTLE, Clerk of said Board

By: ______________________
Deputy 06/20/2023

INSURANCE REVIEW:

By: Darcie Antle
Risk Management

Date: 06/05/2023

CONTRACTOR/COMPANY NAME:

By: ______________________

NAME AND ADDRESS OF CONTRACTOR:

Chandler Asset Management

6225 Lusk Boulevard

San Diego, CA 92121

By signing above, signatory warrants and represents that he/she executed this Agreement in his/her authorized capacity and that by his/her signature on this Agreement, he/she or the entity upon behalf of which he/she acted, executed this Agreement

COUNTY COUNSEL REVIEW:

APPROVED AS TO FORM:

CHRISTIAN M. CURTIS,
County Counsel

By: Brina Blanton
Deputy

Date: 06/05/2023

EXECUTIVE OFFICE/FISCAL REVIEW:

By: ______________________
Deputy CEO or Designee

Date: 06/05/2023

Signatory Authority: $0-25,000 Department; $25,001- 50,000 Purchasing Agent; **$50,001+ Board of Supervisors**
Exception to Bid Process Required/Completed ☐ ______________
Mendocino County Business License: Valid ☐
Exempt Pursuant to MCC Section: ______________

EXHIBIT "A" – SCOPE OF SERVICES

1. CONTRACTOR RESPONSIBILITIES. Contractor shall provide investment management and advisory services for County on all funds authorized by the County to be managed by Contractor. Other services to be provided by Contractor include but are not limited to the following :

1.1 Assist the County in determining its appropriate portfolio benchmark;

1.2 Assist the County in determining its investment risk tolerance and provide monitoring of such risk in the portfolio;

1.3 Provide investment management services for the liquidity portion of the portfolio, if requested;

1.4 Assist the County in analyzing its cash flow requirements;

1.5 Assist the County with development of an asset allocation plan and provide monitoring of such plan;

1.6 Meet quarterly with County staff to review the investment portfolio and performance;

1.7 Provide the County with on-line access to investment information and regular reports;

1.8 Advise the County, annually, on recommended changes to its Investment Policy based on legislative changes and other relevant market conditions; attend the County meeting in which the annual update to the Investment Policy is presented, if requested by the County;

1.9 Be responsive to staff questions or concerns on a daily basis; and

1.10 Provide other services as agreed upon.

2. RECORDS RETENTION. Contractor shall prepare, maintain and/or make available to County upon request, all records and documentation pertaining to this Agreement, including financial, statistical, property, recipient and service records and supporting documentation for a period of ten (10) years from the date of final payment of this Agreement. If at the end of the retention period, there is ongoing litigation or an outstanding audit involving the records, Contractor shall retain the records until resolution of litigation or audit. After the retention period has expired, Contractor assures that confidential records shall be shredded and disposed of appropriately.

3. INVESTMENT AUTHORITY. The Board of Supervisors has, by Ordinance No. 4517 of the Mendocino County Code Section 5.130.010, delegated to the County Treasurer its authority to invest or reinvest the funds of the County and funds of other depositors in the County Treasury pursuant to Government Code sections 53600 to 53970.

4. COUNTY LIASION. In its capacity as investment manager, Chandler shall receive all instructions, directions and other communications respecting County's account from the Auditor-Controller/Treasurer-Tax Collector or designated staff. Chandler may then rely upon instructions, directions, and communications with said liaison(s) respecting County's account.

5 INVESTMENT POLICY. In investing and reinvesting Client's assets, Chandler shall comply with the County's Investment Policy, which is attached hereto as Exhibit E.

6. AUTHORITY OF CHANDLER. Contractor is hereby granted full discretion to invest and reinvest all assets under its management in any type of security it deems appropriate, subject to the instructions given, with respect to limitations or guidelines set by the Auditor-Controller/Treasurer-Tax Collector or designated staff.

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

County email address(s): cubbisoc@mendocinocounty.org

8. PROXY VOTING. Chandler will vote proxies on behalf of County unless otherwise instructed. Chandler has adopted and implemented written policies and procedures and will provide County with a description of the proxy voting procedures upon request. Chandler will provide information regarding how County's proxies were voted upon request. To request proxy policies or other information, please contact us by mail at the address provided, by calling 800-317-4747 or by emailing your request to info@chandlerasset.com.

9. CUSTODY OF SECURITIES AND FUNDS. Chandler shall not have custody or possession of the funds or securities that County has placed under its management. County shall appoint a custodian to take and have possession of its assets. County recognizes the importance of comparing statements received from the appointed custodian to statements received from Chandler. County recognizes that the fees expressed above do not include fees County will incur for custodial services.

10. VALUATION. Chandler will value securities held in portfolios managed by Chandler no less than monthly. Securities or investments in the portfolio will be valued in a manner determined in good faith by Chandler to reflect fair market value.

11. INVESTMENT ADVICE. County recognizes that the opinions, recommendations and actions of Chandler will be based on information deemed by it to be reliable, but not guaranteed to or by it. Provided that Chandler acts in good faith, County agrees that Chandler will not in any way be liable for any error in judgment or for any act or omission, except as may otherwise be provided for under the Federal Securities laws or other applicable laws.

12. PAYMENT OF COMMISSIONS. Chandler may place buy and sell orders with or through such brokers or dealers as it may select. It is the policy and practice of Chandler to strive for the best price and execution and for commission and discounts which are competitive in relation to the value of the transaction and which comply with Section 28(e) of the Securities and Exchange Act. Nevertheless, it is understood that Chandler may pay a commission on transactions in excess of the amount another broker or dealer may charge, and that Chandler makes no warranty or representation regarding commissions paid on transactions hereunder.

13. OTHER CLIENTS. It is further understood that Chandler may be acting in a similar capacity for other institutional and individual clients, and that investments and reinvestments for County's portfolio may differ from those made or recommended with respect to other accounts and clients even though the investment objectives may be the same or similar. Accordingly, it is agreed that Chandler will have no obligation to purchase or sell for County's account any securities which it may purchase or sell for other clients.

14. CONFIDENTIAL RELATIONSHIP. The terms and conditions of this Agreement, and all information and advice furnished by either party to the other shall be treated as confidential and shall not be disclosed to third parties except (i) as required by law, rule, or regulation, (ii) as requested by a regulatory authority, (iii) for disclosures by either party of information that has become public by means other than wrongful conduct by such party or its officers, employees, or other personnel, (iv) for disclosures by either party to its legal counsel, accountants, or other professional advisers, (v) as necessary for Chandler to carry out its responsibilities hereunder, or (vi) as otherwise expressly agreed by the parties.

15. RECEIPT OF BROCHURE AND PRIVACY POLICY. Client hereby acknowledges receipt of the disclosure statement or "brochure" and “brochure supplement” also known as Part 2A and Part 2B of Form ADV, required to be delivered pursuant to Rule 204-3 of the Investment Advisers Act of 1940 (Brochure). Client further acknowledges receipt of Chandler’s Privacy Policy, as required by Regulation S-P.

EXHIBIT "B" – FISCAL PROVISIONS

1. CONTRACTOR'S FINANCIAL RECORDS. Contractor shall keep financial records for funds received hereunder, separate from any other funds administered by Contractor, and maintained in accordance with Generally Accepted Accounting Principles and Procedures and the Office of Management and Budget's Cost Principles.

2. COMPENSATION.

2.1 County shall compensate Chandler monthly an amount calculated on the average market value of County portfolio, including accrued interest, in accordance with the following schedule:

Assets Under Management	Annual Investment Management Fee
First $150 million	0.06 of 1% (6 basis points)
Next $100 million	0.04 of 1% (4 basis points)
Assets in excess of $250 million	0.03 of 1% (3 basis points)

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

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

The fee schedule is all-inclusive for the services that the Contractor will provide the County, including personal visits and education offerings for staff. Contractor will not charge fees on funds held in investment pools (e.g., LAIF) or other liquid vehicles not directly under management.

Fees shall be remitted to the Contractor on a monthly basis. There is no annual minimum required.

3. AUDIT REQUIREMENTS AND AUDIT EXCEPTIONS

3.1 Contractor warrants that it shall comply with all audit requirements established by County and will provide a copy of Contractor's Annual Independent Audit Report, if applicable.

3.2 County may conduct periodic audits of Contractor's financial records, notifying Contractor no less than 48 hours prior to scheduled audit. Said notice shall include a detailed listing of the records required for review. Contractor shall allow County, or other appropriate entities designated by County, access to all financial records pertinent to this Agreement.

3.3 Contractor shall reimburse County for audit exceptions within 30 days of written demand or shall make other repayment arrangements subject to the approval of County.

EXHIBIT "C" – GENERAL PROVISIONS

1. INFORMATION INTEGRITY AND SECURITY. Contractor shall immediately notify County of any known or suspected breach of personal, sensitive and confidential information related to Contractor's work under this Agreement.

2. NON-DISCRIMINATION. Contractor shall not unlawfully discriminate against any qualified worker or recipient of services because of race, religious creed, color, sex, sexual orientation, national origin, ancestry, physical disability, mental disability, medical condition, marital status or age.

3. DEBARMENT, SUSPENSION, AND OTHER RESPONSIBILITY MATTERS

3.1 The Contractor certifies to the best of its knowledge and belief, that it and its subcontractors:

> A. Are not presently debarred, suspended, proposed for disbarment, declared ineligible, or voluntarily excluded from covered transactions by any federal department or agency;
>
> B. Have not, within a three-year period preceding this Agreement, been convicted of or had a civil judgment rendered against them for commission of fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public transaction; violation of federal or State antitrust statutes or commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, or receiving stolen property;
>
> C. Are not presently indicted for or otherwise criminally or civilly charged by a governmental entity with commission of any of the offenses enumerated in the preceding paragraph; and
>
> D. Have not, within a three-year period preceding this Agreement, had one or more public transactions terminated for cause or default.

3.2 Contractor shall report immediately to County, in writing, any incidents of alleged fraud and/or abuse by either Contractor or Contractor's subcontractor. Contractor shall maintain any records, documents, or other evidence of fraud and abuse until otherwise notified by County.

4. INDEMNIFICATION AND HOLD HARMLESS. Contractor shall indemnify and hold harmless County from any and all claims, demands, actions, liability or loss which may arise from or be incurred as a result of the negligent performance of this Agreement by Contractor.

Contractor's obligations under this Section shall survive the termination of the Agreement.

5. STANDARD OF CARE. Contractor represents that it is specially trained, licensed, experienced and competent to perform all the services, responsibilities and duties specified herein and that such services, responsibilities and duties shall be performed, whether by Contractor or designated subcontractors, in a manner according to generally accepted practices.

6. INTEREST OF CONTRACTOR. Contractor assures that neither it nor its employees has any interest, and that it shall not acquire any interest in the future, direct or indirect, which would conflict in any manner or degree with the performance of services hereunder.

7. DUE PERFORMANCE – DEFAULT. Each party agrees to fully perform all aspects of this agreement. If a default to this agreement occurs then the party in default shall be given written notice of said default by the other party. If the party in default does not fully correct (cure) the default within 30 days of the date of that notice (i.e. the time to cure) then such party shall be in default. The time period for corrective action of the party in default may be extended in writing executed by both parties, which must include the reason(s) for the extension and the date the extension expires.

Notice given under this provision shall specify the alleged default and the applicable Agreement provision and shall demand that the party in default perform the provisions of this Agreement within the applicable time period. No such notice shall be deemed a termination of this Agreement, unless the party giving notice so elects in that notice, or so elects in a subsequent written notice after the time to cure has expired.

8. ATTORNEY'S FEES AND COSTS. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees, costs, and necessary disbursements in addition to any other relief to which such part may be entitled.

9. ASSIGNMENT. Contractor shall not assign any interest in this Agreement and shall not transfer any interest in the same without the prior written consent of County except that claims for money due or to become due Contractor from County under this Agreement may be assigned by Contractor to a bank, trust company, or other financial institution without such approval. Written notice of any such transfer shall be furnished promptly to County. Any attempt at assignment of rights under this Agreement except for those specifically consented to by both parties or as stated above shall be void.

10. PAYROLL TAXES AND DEDUCTIONS. Contractor shall promptly forward payroll taxes, insurances, and contributions to designated governmental agencies.

11. INDEPENDENT CONTRACTOR. It is specifically understood and agreed that, in the making and performance of this Agreement, Contractor is an independent contractor and is not an employee, agent or servant of County. Contractor is not entitled to any employee benefits. County agrees that Contractor shall have the right to control the manner and means of accomplishing the result contracted for herein.

Contractor is solely responsible for the payment of all federal, state and local taxes, charges, fees, or contributions required with respect to Contractor and Contractor's officers, employees, and agents who are engaged in the performance of this Agreement (including without limitation, unemployment insurance, social security and payroll tax withholding.)

12. OWNERSHIP OF DOCUMENTS. All non-proprietary reports, drawings, renderings, or other documents or materials prepared by Contractor hereunder are the property of County.

13. SEVERABILITY. If any provision of this Agreement is held to be unenforceable, the remainder of this Agreement shall be severable and not affected thereby

14. ADHERENCE TO APPLICABLE DISABILITY LAW. Contractor shall be responsible for knowing and adhering to the requirements of Section 504 of the Rehabilitation Act of 1973, the Americans with Disabilities Act, (42 U.S.C. Sections 12101, et seq.). California Government Code Sections 12920 et seq., and all related state and local laws.

15. HIPAA COMPLIANCE. Contractor will adhere to Titles 9 and 22 and all other applicable Federal and State statutes and regulations, including the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and will make his best efforts to preserve data integrity and the confidentiality of protected health information.

16. SAFETY RESPONSIBILITIES. Contractor will adhere to all applicable CalOSHA requirements in performing work pursuant to this Agreement. Contractor agrees that in the performance of work under this Agreement, Contractor will provide for the safety needs of its employees and will be responsible for maintaining the standards necessary to minimize health and safety hazards.

17. JURISDICTION AND VENUE. This Agreement shall be construed in accordance with the laws of the State of California and the parties hereto agree that venue of any action or proceeding regarding this Agreement or performance thereof shall be in Mendocino County Superior Court, Mendocino County, California. Contractor waives any right of removal it might have under California Code of Civil Procedure Section 394.

18. NO THIRD-PARTY BENEFICIARIES. Nothing contained in this Agreement shall be construed to create, and the parties do not intend to create, any rights in or for the benefit of third parties.

19. **PUBLIC RECORDS ACT.** Contractor is aware that this Agreement and any documents provided to the County may be subject to the California Public Records Act and may be disclosed to members of the public upon request. It is the responsibility of the Contractor to clearly identify information in those documents that s/he considers to be confidential under the California Public Records Act. To the extent that the County agrees with that designation, such information will be held in confidence whenever possible. All other information will be considered public.

EXHIBIT "D" – INSURANCE REQUIREMENTS

Insurance coverage in a minimum amount set forth herein shall not be construed to relieve Contractor for liability in excess of such coverage, nor shall it preclude County from taking such other action as is available to it under any other provisions of this Agreement or otherwise in law. Insurance requirements shall be in addition to, and not in lieu of, Contractor's indemnity obligations under Section 4 of Exhibit C of this Agreement.

1. **INSURANCE.** Contractor shall obtain and maintain insurance coverage as follows:

1.1 Combined single limit bodily injury liability and property damage liability - $1,000,000 each occurrence.

1.2 Vehicle / Bodily Injury combined single limit vehicle bodily injury and property damage liability - $500,000 each occurrence.

Contractor shall furnish to County certificates of insurance evidencing the minimum levels described above.

EXHIBIT E – INVESTMENT POLICY

COUNTY
OF
MENDOCINO

INVESTMENT POLICY

Adopted by Board of Supervisors on January 24, 2023

Policy in effect for calendar year 2023

INTRODUCTION

As designated by the Board of Supervisors under the laws of the State of California, it is the responsibility of the County Treasurer to secure and protect the public funds of the County, as well as establish proper safeguards, controls, and procedures to maintain these funds in a lawful, rational, and auspicious manner. Said maintenance shall include the prudent and secure investment of those funds that are not immediately required for daily operations in a manner anticipated to provide additional benefits to the citizens of the County of Mendocino. In addition, the County Treasurer acts as the Treasurer, cash manager, and investor for a sizable number of public agencies within the County, rather than each entity having to locate and hire a knowledgeable person to handle the entity's banking, investments, and other financial duties separately. This pooling of public funds not only eliminates duplication of expenses, but also levels out cash flow differences, permits cost savings through higher volume, and attracts more professional service providers. This document contains the policies, procedures, and legalities guiding the County Treasurer when investing funds.

The Investment Policy and practices of the County Treasurer are based on prudent money management principles and California State Law, specifically Government Code Sections 27000.1 - 27000.5, 27136, and 53600 - 53686. The practices of this office will always comply with the legal authority and limitations placed on it by the governing legislative bodies. The implementation of these laws will be the focus of this policy statement. Where this Investment Policy specifies a percentage limitation, compliance will be measured as of the date of purchase. This document is reviewed no less than annually and may be adjusted as needed to reflect any changes in the Government Code or investment practices.

COUNTY TREASURER

The County Treasurer referred to in the Investment Policy is the County Auditor-Controller/Treasurer-Tax Collector

SCOPE

This Investment Policy applies to all the County's financial assets and investment activities with the following exceptions:

> Proceeds of debt issuance shall be invested in accordance with the County's general investment philosophy as set forth in this policy; however, such proceeds are invested in accordance with permitted investment provisions of their specific bond indentures.

Pooling of Funds: Except for cash in certain restricted and special funds, the County will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income shall be allocated quarterly, on the average daily balance method, to the various funds based on their respective participation and in accordance with generally accepted accounting principles. All costs related to investing, maintaining, and accounting for the investments purchased for the Treasury Pool, as authorized by California Government Code Section 27013, shall be apportioned equally on the same basis.

GENERAL OBJECTIVES

The overriding objectives of the investment program are to preserve principal, provide sufficient liquidity, and manage investment risks. The specific objectives for the program are ranked in order of importance:

1. ***Safety***: Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

2. ***Liquidity***: The investment portfolio will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

3. ***Return on Investments***: The investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs. Yield is definitely considered to be of much less importance than safety and liquidity and shall not be a driving force in determining which investments are selected for purchase.

PRUDENCE, INDEMNIFICATION, AND ETHICS

A. *Prudent Investor Standard*: Management of the County's investments is governed by the Prudent Investor Standard as set forth in California Government Code Section 53600.3:

> "…all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the County, 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 County. Within the limitations of

this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

B. *Indemnification*: The Treasurer and other authorized persons responsible for managing County funds, acting in accordance with the investment policy and exercising due diligence, will be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported within 30 days and appropriate action is taken to control adverse developments.

C. *Ethics*: Officers and employees involved in the investment process will refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

DELEGATION OF AUTHORITY

A. Authority to manage the County's investment program is derived from California Government Code Sections 53600 *et seq.* The governing body is responsible for the County's cash management, including the administration of this Investment Policy. Management responsibility for the cash management of County funds is hereby delegated to the Treasurer.

   The Treasurer will be responsible for all transactions undertaken and will establish a system of procedures and controls to regulate the activities of subordinate employees.

B. The County may engage the services of one or more external investment managers to assist in the management of the County's investment portfolio in a manner consistent with the County's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by conducting a process of due diligence. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

A. The County Treasurer will determine which financial institutions are authorized to provide investment services to the County. Institutions eligible to transact investment business with the County include:

1. Institutions licensed by the state as a broker-dealer;
2. Institutions that are members of a federally regulated securities exchange;
3. Primary government dealers as designated by the Federal Reserve Bank;
4. Non-primary government dealers;
5. Nationally or state-chartered banks;
6. The Federal Reserve Bank; and,
7. Direct issuers of securities eligible for purchase.

B. Selection of financial institutions and broker/dealers authorized to engage in transactions with the County will be at the sole discretion of the County.

C. All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the Treasurer with a statement certifying that the institution has reviewed the California Government Code Section 53600 *et seq*. and the County's Investment Policy.

D. Selection of broker/dealers used by an external investment adviser retained by the County will be at the sole discretion of the investment adviser.

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

DELIVERY, SAFEKEEPING AND CUSTODY, AND COMPETITIVE TRANSACTIONS

A. *Delivery-versus-payment*: Settlement of all investment transactions will be completed using standard delivery-vs.-payment procedures.

B. *Third-party safekeeping*: To protect against potential losses by collapse of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all securities owned by the County will be held in safekeeping by a third party bank custodian, acting as agent for the County under the terms of a custody agreement executed by the bank and the County.

C. *Competitive transactions*: All investment transactions will be conducted on a competitive basis which can be executed through a bidding process involving at least three separate brokers/financial institutions to the extent possible or through the use of a nationally recognized trading platform.

The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and (iii) mutual funds and money market mutual funds, since these securities are non-deliverable.

AUTHORIZED AND SUITABLE INVESTMENTS

All investments will be made in accordance with Sections 53600 *et seq.* of the Government Code of the State of California and as described within this Investment Policy. Percentage holding limits and credit rating minimums are applicable at the time the security is purchased. Permitted investments under this policy will include:

1. **Municipal Securities.** These include obligations of the County, the State of California, and any local Agency within the State of California. In addition, Municipal Securities include obligations of the treasuries of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states in addition to California. The bonds will be registered in the name of the County or held under a custodial agreement at a bank. The securities are rated in a rating category of "A" or its equivalent or higher by at least one nationally recognized statistical rating organization (NRSRO).

    a. The maximum maturity of an issue shall be no more than five years at time of purchase;

    b. No more than five percent per issuer; and,

    c. No more than 30% of the portfolio may be invested in Municipal Securities.

2. **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 County may invest in U.S. Treasuries.

    a. The maximum maturity of an issue shall be no more than five years at time of purchase.

3. **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 County may invest in government-sponsored enterprises.

a. The maximum maturity of an issue shall be no more than five years at time of purchase;

b. No more than 30% of the pool value shall be invested in any single issuer; and,

c. The maximum percentage of callable agency securities will be 20%.

4. **Banker's Acceptances** provided that:

    a. They are issued by institutions with short term debt obligations rated in the rating category of "A-1" or higher, or the equivalent, by at least two NRSROs; and have long-term debt obligations which are rated in the rating category of "A" or its equivalent or higher by at least two NRSROs;

    b. The maturity does not exceed 180 days;

    c. No more than 40% of the total portfolio may be invested in banker's acceptances; and,

    d. No more than five percent per issuer.

5. **Federally Insured Time Deposits** (Non-negotiable certificates of deposit) in state or federally chartered banks, savings and loans, or credit unions, provided that:

    a. The amount per institution is limited to the maximum covered under federal insurance;

    b. The maturity of such deposits does not exceed five years; and,

    c. No more than five percent per issuer.

6. **Supranationals** provided that:

    a. Issues are unsubordinated obligations issued by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank;

    b. The securities are rated in the rating category of "AA" or its equivalent or higher by two NRSROs;

    c. No more than 30% of the total portfolio may be invested in these securities;

d. No more than 10% of the portfolio per issuer; and,

e. The maximum maturity does not exceed five years.

7. **Time Deposits (Non-negotiable certificates of deposit)** in state or federally chartered banks, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with securities in accordance with California law, provided that:

   a. No more than 20% of the portfolio will be invested in a combination of federally insured and collateralized time deposits;

   b. The maturity of such deposits does not exceed five years; and,

   c. No more than five percent per issuer.

8. **Certificate of Deposit Placement Service (CDARS)** provided that:

   a. No more than 30% of the total portfolio may be invested in a combination of certificates of deposit including CDARS; and,

   b. The maturity of such deposits does not exceed five years.

9. **Negotiable Certificates of Deposit (NCDs)** provided that:

   a. The amount of the NCD insured up to the FDIC limit does not require any credit ratings;

   b. Any amount above the FDIC insured limit must be issued by institutions which have long-term obligations which are rated in the rating category of "A" or its equivalent or higher by at least one NRSRO; or have short term debt obligations rated "A-1" or higher, or the equivalent, by at least one NRSRO;

   c. The maturity does not exceed five years;

   d. No more than 30% of the total portfolio may be invested in NCDs; and,

   e. No more than five percent per issuer.

10. **Repurchase Agreements** collateralized with securities authorized under Sections VI and VIII (2 and 3) of this policy maintained at a level of at least 102% of the market value of the repurchase agreements, provided that:

    a. The maximum maturity of repurchase agreements will be one year;

b. There is no limit to the amount to be invested in repurchase agreements;

c. Securities used as collateral for repurchase agreements will be delivered to the County's custodian bank (See *Delivery, Safekeeping and Custody, and Competitive Transactions – Third-party safekeeping*); and,

d. The repurchase agreements are the subject of a master repurchase agreement between the County and the provider of the repurchase agreement. The master repurchase agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA).

11. **Commercial Paper** provided that:

a. The maturity does not exceed 270 days from the date of purchase; and,

b. The issuer is a corporation organized and operating in the United States with assets in excess of $500 million; and,

c. If the issuer is organized within the United States as a special purpose corporation, trust, or limited liability corporation, then the securities must have program-wide credit enhancement including, but not limited to, overcollateralization, letters of credit, or a surety bond.

d. They are issued by institutions whose short term obligations are rated in the rating category of "A-1" or higher, or the equivalent, by at least two NRSROs; and whose long-term obligations, if any, are rated in the rating category of "A" or higher by at least two NRSROs; and,

e. No more than 40% of the portfolio is invested in commercial paper; and,

f. No more than five percent per issuer.

12. **State of California Local County Investment Fund (LAIF)**, provided that:

a. The County may invest up to the maximum permitted amount in LAIF; and,

b. LAIF's investments in instruments prohibited by or not specified in the County's policy do not exclude it from the County's list of allowable investments, provided that the fund's reports allow the Treasurer to adequately judge the risk inherent in LAIF's portfolio.

13. **Local Government Investment Pools**

14. **Corporate Medium Term Notes (MTNs),** provided that:

a. Such notes have a maximum maturity of five years;

b. Are 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;

c. Are rated in the rating category of “A” or its equivalent or better by at least one NRSRO;

d. Holdings of medium-term notes may not exceed 30% of the portfolio; and,

e. No more than five percent per issuer.

15. **Mortgage Pass-Through Securities and Asset-Backed Securities,** provided that such securities:

a. Have a maximum stated final maturity of five years;

b. Be rated in a rating category of “AA” or its equivalent or better by at least one NRSRO;

c. Purchase of securities authorized by this subdivision may not exceed 20% of the portfolio; and,

d. No more than five percent of the portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer. There is no issuer limitation on any Mortgage security where the issuer is the US Treasury or a federal agency/government-sponsored entity.

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

a. Provided that such funds meet either of the following criteria:

1. Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs; or,

2. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience investing in the securities and obligations authorized by California Government Code Section 53601 (a through j) and with assets under management in excess of $500 million.

b. Purchase of Mutual Funds authorized by this subdivision may not exceed 20% of the portfolio, with no more than 10% in any one mutual fund. Money

Market Mutual Funds authorized by this subdivision may not exceed 20% of the portfolio, with no more than 20% in any one money market mutual fund.

c. No more than 20% of the total portfolio may be invested in a combination of Mutual Funds and Money Market Mutual Funds.

PORTFOLIO RISK MANAGEMENT

A. *Prohibited investment vehicles and practices*:

1. State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.

2. In accordance with California Government Code Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.

3. Purchasing securities with a final maturity longer than five years from purchase settlement date, unless approved by the Board of Supervisors, is prohibited.

4. Investment in any security that could result in a zero interest accrual if held to maturity is prohibited. Under a provision sunsetting January 1, 2026, securities backed by the U.S. Government that could result in zero or negative interest accrual if held to maturity are permitted.

5. Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.

6. Purchasing or selling securities on margin is prohibited.

7. The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.

8. The purchase of foreign currency denominated securities is prohibited.

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

1. The diversification requirements included in Section VIII are designed to mitigate credit risk in the portfolio;

2. No more than five percent of the total portfolio may be invested in securities of any single issuer, except for US government securities, LGIPs, Supranationals, and money market mutual funds, or unless otherwise specified in this policy;

3. The County may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity, or yield of the portfolio in response to market conditions or County's risk preferences; and,

4. If a security's credit ratings owned by the County are downgraded to a level below the quality required by this Investment Policy, making the security ineligible for additional purchases, the following steps will be taken:

   a. Any actions taken related to the downgrade by the investment manager will be communicated to the Treasurer in a timely manner.

   b. If a decision is made to retain the security, the credit situation will be monitored and reported to the governing board.

C. *Mitigating market risk in the portfolio*: Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The County recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The County will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The County further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The County, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

1. The County will maintain a minimum of three months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements;

2. The maximum stated final maturity of individual securities in the portfolio will be five years, except as otherwise stated in this policy; and,

3. The duration of the portfolio will at all times be approximately equal to the duration (typically plus or minus 20%) of a Market Benchmark Index selected by the County based on the County's investment objectives, constraints, and risk tolerances.

INVESTMENT OBJECTIVES (PERFORMANCE STANDARDS AND EVALUATION)

A. **Overall objective:** The investment portfolio will be designed with the overall objective of obtaining a total rate of return throughout economic cycles, commensurate with investment risk constraints and cash flow needs.

B. **Specific objective:** The investment performance objective for the portfolio will be to earn a total rate of return over a market cycle which is approximately equal to the return on the selected Market Benchmark Index.

SOCIAL AND ENVIRONMENTAL CONCERNS

In the event all general objectives mandated by state law and set forth in Section III above are met and created equal, investments in corporate securities and depository institutions will be evaluated for social and environmental concerns. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability, or sexual orientation, as well as those entities that practice environmentally sound and fair labor practices. Investments are discouraged in entities that receive a significant portion of their revenues from the manufacturer of tobacco products, firearms, or weapons not used in our national defense.

PROCEDURES AND INTERNAL CONTROLS

A. *Procedures*: The Treasurer will establish written investment policy procedures in a separate investment procedures manual to assist investment staff with day-to-day operations of the investment program consistent with this policy. Such procedures will include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy as designated in Appendix I and the procedures established by the Treasurer.

B. *Internal Controls*: The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft, or misuse. The internal control structure will be designed to provide reasonable assurance that these objectives are met. Internal controls will be described in the County's investment procedures manual.

DEPOSIT AND WITHDRAWAL OF FUNDS

A. *Deposits*: Funds will be accepted at all times from those local agencies where the County Treasurer is also the Treasurer for the local agency, or from any agencies that by statute must place their money in the Treasury Pool. The County Treasurer shall set conditions under which funds from local agencies not required to have their funds in the Treasury Pool may deposit voluntarily invested funds. Local agencies from outside the County will not be permitted to deposit funds in the Treasury Pool.

B. *Withdrawals*: Under language added to the California Government Code in 1995, it is not permissible for local agency legislative bodies, required to have their funds in the Treasury Pool, to withdraw funds in order to invest outside the Treasury Pool. Local agencies within the County who voluntarily participate in the Treasury Pool may withdraw their funds under conditions set forth in California Government Code Section 27136.

REPORTING, DISCLOSURE, AND PROGRAM EVALUATION

A. *Monthly Reports*: Monthly investment reports will be posted to the Treasurer's website. These reports will disclose, at a minimum, the following information about the risk characteristics of the County's portfolio:

   1. An asset listing showing par value, cost and accurate and complete market value of each security, type of investment, issuer, date of maturity, and interest rate;

   2. A one-page summary report that shows:
      a. Average maturity of the portfolio and modified duration of the portfolio;
      b. Maturity distribution of the portfolio;
      c. Average portfolio credit quality.

   3. A monthly transactions report.

B. *Quarterly Reports*: Investment reports will be provided to the Board of Supervisors on a quarterly basis. The quarterly report shall be submitted within 30 days following the end of the quarter. These reports will disclose all information provided in the monthly reports, as well as the following:

   1. A statement of compliance with investment policy, including a schedule of any transactions or holdings which do not comply with this policy or with the California Government Code, including a justification for their presence in the portfolio and a timetable for resolution; and,

   2. A statement that the County has adequate funds to meet its cash flow requirements for the next six months.

C. *Annual Reports*:

   1. The investment policy will be reviewed and adopted by the Board of Supervisors at least annually 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.

2. A comprehensive annual report will be issued at the conclusion of each fiscal year. This report will include comparisons of the County's return to the Benchmark Index return, suggest policies and improvements that might enhance the investment program, and will include an investment plan for the coming year.

D. *Annual Audit*: An independent review by an external expert will be conducted annually to assure compliance with internal controls and adherence to the Investment Policy.

Policy adopted by the Mendocino County Board of Supervisors on January 24, 2023.

Appendix I

AUTHORIZED PERSONNEL

While the Treasurer has final responsibility for all investment decisions, other Treasury personnel may aid in the day-to-day operations, the following job classes are authorized to transact investment business and wire funds for investment purposes on behalf of the County of Mendocino:

Assistant Treasurer-Tax Collector
Principal Department Analyst (Treasurer Division)
Deputy Treasurer-Tax Collector (Treasurer Division)
Treasury Specialist

Appendix II

GLOSSARY OF INVESTMENT TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

COST YIELD. The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

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

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

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

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

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

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

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

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

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

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

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

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

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

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

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

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

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

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

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

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

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

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

MODIFIED DURATION. The percent change in price for a 100 basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

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

Mortgage Pass-Through Securities. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

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

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

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

Negotiable CD. A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market.

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

Prepayment Speed. A measure of how quickly principal is repaid to investors in mortgage securities.

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

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

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

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

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

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

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

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

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

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

U.S. Treasury Obligations. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

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

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

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

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

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