COUNTY
OF
MENDOCINO

STATEMENT OF INVESTMENT POLICY

OFFICE OF
CHAMISE CUBBISON
MENDOCINO COUNTY
AUDITOR-CONTROLLER/TREASURER-TAX COLLECTOR
JANUARY 2026

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I. 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.

II. Scope

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

A. 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, calculated using on the average daily balance for the calendar quarter and allocated quarterly using cash basis methodology, to the various funds based on their respective participation and in accordance with generally accepted accounting principles. As authorized by California Government Code Section 27013, all costs related to the actual administrative cost of such investing, depositing or handling of funds and of distribution of such interest or income shall be apportioned equally on the same basis.

III. 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.

IV. 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.

V. 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. Pertaining to the California Government Code Section 27000 this delegation is subject to review and renewal of authority by the Board of Supervisors each year.

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.

VI. 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, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

VII. 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.

VIII. 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;
    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.

3. **U.S. Agency Obligations** 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;
    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 (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB);
    b. The securities are rated in the rating category of "AA" or its equivalent or higher by one NRSRO;
    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. **Collateralized Time Deposits (Non-negotiable certificates of deposit)** in state or federally chartered banks, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with securities in accordance with California law, provided that:

    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. **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 be in negotiable certificates of deposit that are authorized under Section 53601(i).; and,
e. No more than five percent per issuer.

9. **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 Section VII B); 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).

10. **Commercial Paper** provided that the securities are issued by an entity that meets all of the following conditions in either paragraph (a) or (b) and other requirements specified below:

    a. Securities issued by corporations:
       1. A corporation organized and operating in the United States with assets more than $500 million.
       2. The securities are rated "A-1" or its equivalent or better by at least one NRSRO.
       3. If the issuer has other debt obligations, they must be rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
    b. Securities issued by other entities:
       1. The issuer is organized within the United States as a special purpose corporation, trust, or limited liability company.
       2. The securities must have program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.
       3. The securities are rated "A-1" or its equivalent or better by at least one NRSRO.
    c. Other requirements:
       1. No more than 40% of the Pool's investment assets under management may be invested in Commercial Paper.
       2. No more than 5% of the Pool may be invested in any single issuer.
       3. The maximum maturity may not exceed 397 days.

11. **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.

12. **Local Government Investment Pools,** provided that: specifically Joint Powers Authority Pools and County Pooled Investment Funds. Provided that:

    a. A Joint Powers Authority Pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o)

13. **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.

14. **Asset-Backed Securities, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations from Issuers Not Defined In Sections 2 and 3 of the Authorized and Suitable Investments Section of this Investment Policy** 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.

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

    a. No more than 10% invested in any one single mutual fund. This limitation does not apply to money market mutual funds;
    b. No more than 20% of the total portfolio may be invested in a combination of Mutual Funds and Money Market Mutual Funds;

c. A Mutual Fund must receive the highest ranking by not less than two nationally recognized rating agencies, or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53635; and,
d. A Money Market Mutual Fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of $500 million.

IX. 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, 2031, 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; and,
9. The purchase of a security with a forward settlement date exceeding 45 days from the time of the investments 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; and,
    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 six 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 from the date of settlement, 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.

X. 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.

XI. 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 manufacture of tobacco products, firearms, or weapons not used in our national defense. Additionally, pursuant to the County's outlined desire to mitigate Climate Change and in respect to the Board of Supervisors Resolution 24-121 adopted September 10, 2024, the Treasury shall not invest any funds in securities issued by firms whose general business activities are classified as "Energy - Oil, Gas & Coal" according to the Bloomberg Industry Classification System.

XII. 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.

XIII. Deposit and Withdrawal of Pooled 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, in conjunction with the Auditor, 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. *Withdrawal Requests*: The Treasury will honor all requests to withdraw funds for normal cash flow purposes that are approved by the Auditor at net asset value. Any requests to withdraw funds for purposes other than immediate cash flow needs, such as for external investing, are subject to the consent of the Treasurer.

In accordance with California Government Code Sections 27133(h) and 27136, such requests for withdrawals must first be made in writing to the Treasurer. When evaluating a request to withdraw funds, the Treasurer will take into account the effect of a withdrawal on the stability and predictability of the Pooled Investment Fund and the interests of other depositors. Any withdrawal for such purposes will be at the market value of the Pooled Investment Fund on the date of the withdrawal.

XIV. Divestment Of Voluntary Pooled Participants

The Treasury purchases securities with the intent to hold them to maturity. To that end, funds are invested in securities that mature on dates consistent with the anticipated operating cash requirements of all Pool participants. Withdrawals of funds by Voluntary Pool Participants for any purpose not considered as funds being utilized for operations shall be prohibited unless the Voluntary Pool Participant divests from the Pool and completely withdrawals all funds, ending their relationship with the County Pool.

To initiate the divestment process, the agency shall send a letter to the County Treasurer requesting divestment from the Pool. The letter will indicate the specific legal authority the agency is using to divest from the Pool. The letter shall include the reasons the agency wishes to divest, acknowledgement that they will not be permitted to rejoin the Pool, and the timeline they wish to have the divestment completed.

Upon review of the letter and the divestment request approved by the County Treasurer, the two parties will agree upon a mutually beneficial date to completely withdraw the agency funds from the Pool. Once a mutually beneficial date is agreed upon the agency shall pass a resolution with the following requirements:

1. The agency will state their intent to divest from the County Pool.

2. The agency will relieve the County Treasurer and County of any fiduciary responsibility to the agency.

3. The agency will agree to hold harmless the County Treasurer and County for any adverse consequences the agency may face from divestment from the Pool.

4. The agency will acknowledge that the divestment is intended to be permanent, and that the agency may be prohibited from rejoining the Pool at a future date.

5. The agency will acknowledge that the divestment may cause an adverse impact on current Pool participants and that the County Treasurer, at their discretion, may mark the divestment to market.

6. The agency will add any other provisions to the resolution as required by state and local law.

The County Treasurer reserves the right to divest any Voluntary Pool Participant from the Pool if they withdraw funds for any purpose not considered as funds being utilized for operations without the consent of the County Treasurer.

XV. 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; and,

    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 45 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.

Policy adopted by the Mendocino County Board of Supervisors on January __, 2026.

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
Investment Operations Analyst
Chief Deputy Treasurer-Tax Collector (Treasurer Division)
Treasury Specialist I/II
Senior Revenue Recovery 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 “Freddie Mac” issues discount notes, bonds and mortgage pass-through securities.
- **FNMA.** Like FHLB and Freddie Mac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as “Fannie Mae,” issues discount notes, bonds and mortgage pass-through securities.
- **GNMA.** The Government National Mortgage Association, known as “Ginnie Mae,” 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 their 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.

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. An investment's term or remaining maturity is measured from the settlement date until final maturity.

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.

PLACEMENT SERVICE DEPOSITS. A private service that allows local agencies to invest in FDIC-insured deposits with one or more banks, savings and loans, and credit unions located in the United States. IntraFi (formerly known as CDARS) is an example of an entity that provides this service.

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.

TREASURER. This is the elected Auditor-Controller/Treasurer-Tax Collector, acting in their capacity as the Treasurer of the County.

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.