



City of Irvine

Annual Investment Policy Calendar Year 2014

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**Michele Lund
City Treasurer**

City of Irvine
Annual Investment Policy
Calendar Year 2014

TABLE OF CONTENTS

Introduction	1
Scope	1
Delegation of Authority	1
Ethics and Conflicts of Interest	2
Prudence/Prudent Investor Standard	2
Internal Controls.....	3
Investment Objectives	3
Performance Evaluation.....	4
Diversification	4
Portfolio Segregation.....	4
Bond Issuance Arbitrage Rebate.....	5
Qualified Dealers	5
Safekeeping of Securities	6
Collateralization	7
Maximum Maturities	8
Investment Pools/Money Market Mutual Funds	8
Authorized and Suitable Investments.....	9
Ineligible Investments.....	13
Investment Advisory Committee	13
Portfolio Reporting	13
Review of Investment Portfolio	14
Investment Policy Adoption.....	14
Glossary	15
Exhibits:	
Broker/Dealer Request for Proposal.....	A-1
Bylaws of the Investment Advisory Committee	B-1

**CITY OF IRVINE
ANNUAL INVESTMENT POLICY
FOR CALENDAR YEAR 2014**

1. INTRODUCTION

This statement of Investment Policy is intended to provide specific criteria for the prudent investment of City funds. The ultimate investment goal is to enhance the economic status of the City while protecting funds under management and meeting the daily cash flow demands of the City. This investment policy has been prepared in conformance with all pertinent existing laws of the State of California including California Government Code Sections 53600, et seq.

2. SCOPE

This investment policy applies to the City's Irvine Pooled Investment Portfolio, Bond Proceeds Portfolio held by the City, and Special Districts Portfolio. These portfolios encompass all monies under the direct oversight of the Treasurer and include the General Fund, Reserve Funds, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Proprietary Funds, Trust and Agency Funds, Successor Agency to the Dissolved Irvine Redevelopment Agency, and any other funds that may be created. These funds are accounted for in the City of Irvine's Comprehensive Annual Financial Report.

3. DELEGATION OF AUTHORITY

Authority to manage the City of Irvine's investment program is derived from the Charter of the City of Irvine, Section 2-2-101(B). The authority of the City Council to invest or reinvest monies of the City has been delegated by the City Council to the City Treasurer for one year or until such time the delegation is revoked. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials, and their procedures in the absence of the City Treasurer. The City Treasurer may delegate daily investment activity, such as carrying out the Treasurer's investment instructions, confirming treasury transactions, and other routine activities.

The City Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall 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 and the procedures established by the City Treasurer.

The Treasurer is responsible for the investment of bond proceeds whether held by the City or with a fiscal agent. The Bond Proceeds portfolio(s) shall be segregated from the Irvine Pooled Investment Portfolio of the City and will be structured with maturities (or maintain an average maturity) sufficient to meet construction draws, debt service payments and other short-term liabilities. For purposes of efficiency, the Treasurer may instruct each fiscal agent to purchase certain securities regarding the investment of bond proceeds.

Currently, management of the Irvine Pooled Investment Portfolio, Bonds Proceeds Portfolio and Special Districts Portfolio has been delegated to a contract management firm that has full authority to execute investment transactions on behalf of the City. In the event the contract management firm is not able to execute investment transactions, the City Treasurer and Deputy City Treasurer have the authority to execute investment transactions.

4. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program or that impairs their ability to make impartial investment decisions. Employees and investment officials shall disclose any material financial interests that could be related to the performance of the City's investment policy annually with the California Fair Political Practices Commission or as necessary under the Political Reform Act and Government Code Section 1090 et seq.

5. PRUDENCE/PRUDENT INVESTOR STANDARD

The Treasurer operates the City's pooled cash investment program under the Prudent Investor Standard, Government Code Section 53600.3, and applicable State laws. When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the Treasurer 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 City, 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 City. Within the limitations of this section and considering individual investments as part of an overall strategy,

investments may be acquired and sold as authorized by law. This affords a broad spectrum of investment opportunities so long as the investment is deemed prudent and permissible by the State of California, various bond indentures and this policy. The Treasurer strives to invest 100% of idle funds.

6. INTERNAL CONTROLS

The Treasurer and Manager of Fiscal Services shall establish procedures that separate the internal responsibility for management and accounting of the investment portfolio. An analysis by an external independent auditor shall be conducted annually to review internal controls, account activity and compliance with policies and procedures.

7. INVESTMENT OBJECTIVES

The City's cash management system is designed to accurately monitor and forecast revenues and expenditures, thus enabling the Treasurer to invest funds to the fullest extent possible. The Treasurer maintains a diversified portfolio to accomplish the primary objectives in the order of safety, liquidity, and yield.

Safety: The safety/risk associated with an investment refers to the potential loss of principal, accrued interest or a combination of these. The Treasurer seeks to mitigate credit risk by monitoring financial institutions with which he/she will do business, and by careful scrutiny of the credit worthiness of the investment instruments as well as the institutions. Such resources as a nationally recognized statistical-rating organization (NRSRO) services are utilized for this review. The Treasurer seeks to mitigate interest rate risk through diversification of instruments as well as maturities.

Liquidity: The portfolio will be structured with sufficient liquidity to allow the Treasurer to meet anticipated cash requirements. This will be accomplished through the purchase of a diversity of instruments to include those with active secondary markets, those that can match maturities to expected cash needs, and the State Local Agency Investment Fund (LAIF) with immediate withdrawal provisions.

Yield: A competitive market rate of return is the third objective of the investment program after the fundamental requirements of safety and liquidity have been met. The portfolio shall be managed to consistently attain a market rate of return throughout budgetary and economic cycles. Whenever possible, and consistent with risk limitations and prudent investment management, the City will seek to augment returns above the

market average rate of return through the implementation of active portfolio management strategies.

8. PERFORMANCE EVALUATION

Investment performance is continually monitored and evaluated by the City Treasurer. Investment portfolio reports are generated on a monthly and quarterly basis and submitted to the City Council, City Manager and Investment Advisory Committee. A quarterly Treasurer's report is also presented to the City Council, Finance Commission, and Investment Advisory Committee during respective regularly scheduled meetings.

The investment portfolio reports are to be submitted within 30 days of the end of the reporting period. The monthly average yield of the Irvine Pooled Investment Portfolio will be compared to the monthly average 6-month CMT (Constant Maturity Treasury) as calculated by the Federal Reserve Bank of New York. As an added reference, the monthly average yield of the Irvine Pooled Investment Portfolio will be compared to the monthly average 2-year CMT as calculated by the Federal Reserve Bank of New York.

9. DIVERSIFICATION

The City will diversify use of investment instruments to avoid unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities.

Market price volatility shall be controlled through maturity diversification, as well as ensuring adequate liquidity is available to meet cash flow requirements, thereby precluding the need to sell instruments at a market loss.

Risk of default will be controlled by acquiring instruments such as Government Securities, or by diversifying the portfolio within the constraints and parameters of Section 17 of this Policy, Authorized and Suitable Investments.

10. PORTFOLIO SEGREGATION

Within the overall funds managed by the Treasurer, bond funds shall be segregated from the general City pool into their own pool and be invested

in conformance with the permitted investment criteria documented in each bond indenture or guiding resolution. Furthermore, bond proceeds held by fiscal agents shall also be segregated and invested in accordance with each indenture.

The primary purpose of any separately managed bond proceeds portfolio is to structure investment maturities to meet current and future liabilities. The preservation of principal and the maintenance of liquidity are the most important factors regarding the investment of bond proceeds. Portfolio yield is not a primary factor since the portfolio structure, eligible investment assets and maturity restrictions are governed by draws and expenditure schedules of the issues. Performance will be based upon maximizing permitted positive arbitrage within the context of principal preservation as a first priority (pre-1986 Tax Reform Act issuances) or minimizing or eliminating negative arbitrage (yield-restricted issues).

11. BOND ISSUANCE ARBITRAGE REBATE

The U.S. Tax Reform Act of 1986 requires the City to perform annual arbitrage calculations and rebate excess earnings to the U.S. Treasury for investment returns that exceed the allowable interest earnings limit of each bond issue. The arbitrage calculation process must be conducted for the investment of proceeds of bond issues sold after the effective date of this law. This arbitrage calculation will be contracted out to provide the necessary technical expertise to comply with this regulation. The City's investment position relative to the interest rate arbitrage restrictions is to have safety and the highest permitted return the law allows as the highest priority while ensuring the preservation of principal and liquidity.

12. QUALIFIED DEALERS

The Treasurer shall transact business only with Registered Investment Advisors, national or state-chartered banks, savings and loans, and broker dealers. The dealers should be primary dealers regularly reporting to the New York Federal Reserve Bank, or approved regional or secondary market dealers that qualify under the Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

A list of security broker/dealers approved to conduct business with the City shall be maintained. Every three years, the City shall issue a Request for Qualifications (RFQ) to be submitted by broker/dealers that wish to conduct business with the City. The RFQ is attached as Exhibit A. The City shall

conduct a review and evaluation process of submitted proposals and establish a list of approved list of broker/dealers. Approved broker/dealers shall be required to execute the Acknowledgement of Compliance Standards for Investment Transactions prior to conducting business with the City.

The Treasurer may direct a fiscal agent to execute investment transactions on behalf of the City for funds held by that fiscal agent.

The City may purchase "prime" quality rated commercial paper from its direct issuer if it presents a higher return than in the secondary market.

The Treasurer shall send annually a copy of the current investment policy by electronic mail to all broker/dealers approved to do business with the City. Broker/dealers shall be required to provide a certification acknowledging receipt of the policy and their most recent audited financial statements upon receipt of policy. The Treasurer will monitor approved broker/dealers and their firms, to ensure they are in good standing with the appropriate regulatory agencies. The Treasurer will review financials and report back to the Investment Advisory Committee. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the City's investment policies and agrees to sell the City only appropriate investments.

13. SAFEKEEPING OF SECURITIES

To protect against losses caused by the collapse of individual securities dealers, all securities owned by the City, including collateral for repurchase agreements, shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of a custody agreement or, in the case of funds held by the fiscal agent, the fiscal agent shall segregate and report securities held on the City's behalf. Any trade executed by a dealer is required to settle on a delivery versus payment basis with the City's safekeeping agent.

Fiscal agents in receipt of City of Irvine bond proceeds will settle security transactions on a delivery versus payment method based upon instructions provided by the Treasurer or the City's investment advisor. The fiscal agents will issue monthly custodian statements evidencing securities held in safekeeping, including the receipt of interest and maturity proceeds, the disbursement of funds for the purchase of securities, and the receipt of any sale proceeds.

14. COLLATERALIZATION

All demand deposits, time deposits and repurchase agreements are to be fully collateralized with securities authorized by the California Government Code and the City.

- (1) The eligible collateral for repurchase agreements must be those investments authorized by Section 53651 of the California Government Code. The Treasurer may specify the type of eligible collateral for use in repurchase agreements. Eligible collateral must be in book entry form. Collateral is valued at current market plus accrued interest through the date of valuation.

- (a) The cost value (book value) of collateral pledged for demand deposits must at all time be equal to or greater than the amount on deposit, plus accrued interest, in accordance with the following ratio:

U.S. Treasury Securities	110%
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- (b) The cost value (book value) of collateral pledged for repurchase agreements must at all time be equal to or greater than the par amount, plus accrued interest, with the following ratios:

U.S. Treasury Securities	102%
U.S. Government Agencies	102%

- (2) It is the policy of the City to require reports at least on a quarterly basis from institutions with which the Treasurer has pledged security interest. The Treasurer shall monitor the adequacy of collateralization to ensure that balances are collateralized in accordance with the ratios approved herein.
- (3) With regard to repurchase agreements, it is the policy of the City to initiate a margin call in the event pledged collateral falls below the appropriate ratio.
- (4) Collateralized investments and deposits often require substitution of collateral. Any broker or financial institution requesting substitution must contact the City for approval in the event the counterparty to

the transaction is not authorized under agreement with the City to make substitutions.

15. MAXIMUM MATURITIES

(1) Pooled Investment Portfolio

In accordance to California Government Code Section 53601, The City will not invest in any securities maturing more than five (5) years from the settlement date of purchase. If the Treasurer desires to make investments longer than five years, express authority to make those investments, either specifically or as part of an investment program, must be approved by the City Council no less than three months prior to the investment. In no event will securities with maximum maturities beyond four years exceed 40% of the portfolio's total carrying cost at the time of purchase.

(2) Bond Proceeds Portfolio/Special Districts Portfolio

The Bond Proceeds portfolio held by the City and/or fiscal agents will be structured with maturities sufficient to meet current and future disbursements and other liabilities consistent with the purpose of each bond issue. The Treasurer may match maturities to defined future liabilities or may structure the portfolio in such a manner as to maintain an average maturity and a defined liquidity percentage necessary to meet estimated liabilities. In no event will securities be purchased with final maturities that exceed a specifically defined future liquidity requirement (such as bond reserve fund availability requirement) or liability.

16. INVESTMENT POOLS/MONEY MARKET MUTUAL FUNDS

A thorough investigation of any government sponsored pool and/or mutual fund is required prior to investing and on a continual basis. There shall be a questionnaire completed which will provide the following information:

1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are

- priced and the program audited.
4. A description of who may invest in the program, how often, and what size of deposits and withdrawals are allowed.
 5. A schedule for receiving statements and portfolio listings.
 6. A description of how the pool/fund utilizes reserves, retained earnings, etc.
 7. A fee schedule, including when and how fees are assessed.
 8. The eligibility of the pool/fund to invest in bond proceeds and a description of its practices.

17. AUTHORIZED AND SUITABLE INVESTMENTS

The City is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations and based on the cost at the time of purchase, the following investments are authorized as further limited herein:

Authorized Investment Summary Matrix

<u>Category</u>	<u>Percent</u>
A. US Treasuries	no limit
B. US Agencies	no limit
C. Bankers' Acceptances	25%
D. Commercial Paper	15%
E. Repurchase Agreements	25%
F. Reverse Repurchase Agreements	15%
G. Local Agency Investment Fund (LAIF)	25%
H. Municipal Bonds	no limit
I. Corporate Medium Term Notes	15%
J. Money Market Mutual Funds	20%

- A. United States Treasury Bills, Bonds, and Notes, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the portfolio that can be invested in this category.
- B. Obligations issued by United States Federal agencies or government-sponsored enterprise obligations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. Although there is no percentage limitation on these issues, the "prudent investor" standard shall apply to investments from a single agency.

- C. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as Bankers' Acceptances. Bankers' Acceptances purchased may not exceed 180 days to maturity or 25% of the cost (book) value of the portfolio. No more than \$5 million may be invested in Bankers' Acceptances issued by any one bank. Prior to the purchase of any Banker's Acceptance, the portfolio manager shall review the rating of the issuing bank. Bankers' Acceptances of issuing financial institutions shall have both a short and long term rating in the highest category by at least one nationally recognized rating agency at the time of purchase.
- D. Commercial Paper ranked of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by NRSRO and issued by a domestic corporation having assets in excess of \$500 million. The commercial paper must also have an "A" or better rating for the issuer's debt, other than commercial paper, if any, as provided by a NRSRO. Purchase of commercial paper from corporations on negative credit watch by a major rating agency shall be prohibited. Purchases of eligible Commercial Paper may not exceed 270 days to maturity. Purchases of Commercial Paper may not exceed 15% of the cost value of the portfolio at time of purchase. No more than 3% of the cost value of the portfolio may be invested in Commercial Paper issued by any one corporation. Corporate Medium Term Note and bankers' acceptance holdings shall be considered when calculating the maximum dollar amount in any issuer name.

Upon any announcement of negative credit watch or downgrade by a major rating agency of any issue within the portfolio, the investment manager should contact the City Treasurer/City Manager and recommend a course of action. If at any time a security falls below "investment grade," the investment manager should obtain the best bid and take the necessary steps toward liquidation.

- E. Repurchase agreements. The City may invest in repurchase agreements with banks and primary dealers with whom the City has entered into a master repurchase agreement that specifies terms and conditions of repurchase agreements. No more than 25% of the cost value of the portfolio may be invested in repurchase agreements at any time. The maturity of repurchase agreements shall not exceed 75 days.

The cost value of securities used as collateral for repurchase agreements shall be monitored daily by the Treasurer and will not be allowed to fall below the margin ratios specified in Section 14 (1)(b) of this policy. In order to conform with provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct obligations of, or that are fully guaranteed as to principal and interest by, the United States Government such as Treasury bills, Treasury notes or Treasury bonds with less than a five year maturity.

- F. Reverse repurchase agreements. The City may invest in reverse repurchase agreements only with those banks and primary dealers with whom the City has entered into a master repurchase agreement outlining terms and conditions of repurchase and reverse repurchase agreements. The City may only invest in reverse repurchase agreements for the following purpose:
 - 1. The City may enter into reverse repurchase agreements when funds obtained through the reverse can be reinvested in a higher yielding security to obtain additional interest income for the City at a spread deemed to be acceptable by the Treasurer under then prevailing market conditions. Reverse repurchase agreements entered into in accordance with this paragraph may not exceed 75 days to maturity and must be matched as to maturity and dollars invested with its corresponding reinvestment. No more than 15% of the cost value (book value) of the portfolio may be invested in reverse repurchase agreements.
 - 2. Reverse repurchase agreements may be used for liquidity purposes when it is determined that the portfolio has sufficient additional collateral coming due within the term of the reverse repurchase agreement equal to or exceeding the amount of the reverse repurchase agreement.
- G. The City may invest in the LAIF established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law, but not to exceed 25% of the cost value (book value) of the total portfolio exclusive of the fiscal agent cash portfolio.

- H. Bonds issued by local agencies of the United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, bond, agency, or authority of the local agency rated "AA" or better by a NRSRO. "AA" rated bonds shall be limited to 36 months maximum maturity and "AAA" rated bonds shall be limited to 60 months maximum maturity.

Upon any announcement of negative credit watch or downgrade by a major rating agency of any issue within the portfolio, the investment manager should contact the City Treasurer/City Manager and recommend a course of action. If at any time a security falls below "investment grade," the investment manager should obtain the best bid and take the necessary steps toward liquidation.

- I. Corporate medium term notes issued by a domestic corporation having assets in excess of \$500 million and having an "AA" or better rating criteria at time of purchase on its long-term debentures as provided by a NRSRO. Purchase of corporate medium term notes from corporations on negative credit watch by a major rating agency shall be prohibited. "AA" rated medium term notes shall be limited to 36 months maximum maturity and "AAA" rated medium term notes shall be limited to 60 months maximum maturity. The aggregate total of all purchased medium term notes may not exceed 15% of the cost value of the portfolio. No more than 3% of the cost value of the portfolio may be invested in corporate medium term notes issued by any one corporation. Commercial Paper and bankers' acceptance holdings shall be considered when calculating the maximum percentage in any issuer name.

Upon any announcement of negative credit watch or downgrade by a major rating agency of any issue within the portfolio, the investment manager should contact the City Treasurer/City Manager and recommend a course of action. If at any time a security falls below "investment grade," the investment manager should obtain the best bid and take the necessary steps toward liquidation.

- J. Money Market Mutual funds having a rating of "AAA" or an equivalent by no less than two NRSRO with no load and maintained at \$1 par value. No more than 20% of the cost value of portfolio value at time of purchase, excluding the Special District Portfolio, should be invested in this category;, and the City's investment in any specific mutual fund will not exceed 2% of that mutual fund's total assets.

18. INELIGIBLE INVESTMENTS

Investments not described herein including, but not limited to, equity securities such as common stocks, preferred stocks, convertibles, inverse floaters, range notes and interest-only strips that are derived from a pool of mortgages are prohibited from use in this portfolio. The City is prohibited from entering into a margin agreement and/or borrowing on margin.

19. INVESTMENT ADVISORY COMMITTEE

The City has created a five member Investment Advisory Committee as a standing Committee to advise the City on matters relating to the City's Investment Policy and the investment of City funds. The Committee meets at least quarterly with the Treasurer and City staff and reports directly to the City Council. Each Councilmember appoints one person to the Committee. The Committee member's term is concurrent with the term of the appointing Councilmember. The Committee will be governed by a set of Bylaws (Exhibit B) to be reviewed and approved annually.

20. PORTFOLIO REPORTING

In accordance with California Government Code, Sections 53607 and 53646(b), the Treasurer shall provide on a monthly and quarterly basis (or as otherwise requested by the City Manager) an investment portfolio to the City Council. The report shall include a listing of each of the City's investments (a description that adequately describes the security), the purchase date, maturity date, cost basis, current cost value (book value), interest rate, weighted average maturity, current unrealized loss or gain and a listing of investment transactions that includes purchase/deposit and sale/withdrawal activity. Various investment types will be categorized and grouped in the same structure as the qualified investment categories identified in this policy. The portfolio report shall include a statement certifying the ability of the City to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available. The report will also include comments on the fixed income markets and economic conditions, and the effect, if any, on the portfolio structure and investment strategy. The report shall also detail all repurchase and reverse repurchase positions and associated liabilities.

The investment portfolio report shall include market value information for all investments. A monthly market value will be obtained for each security

owned by the City. For purposes of reporting, the market value of each security may be obtained from the City's custodian bank or other pricing source(s) utilized by the City's designated investment management firm (registered investment advisor).

The City shall record interest revenue on a modified accrual basis of accounting that is typical for reporting and recording of interest earnings. Securities held by a fiscal agent shall also be recorded on a modified accrual basis of accounting. The Treasurer will report year-end investments in conformance with Governmental Accounting Standards Board Statement Nos. 31 and 40.

The Treasurer will provide a monthly reconciliation of all funds included in the investment portfolios. The reconciliation shall utilize all available information including the City's books, the Demand Deposit Bank account, the custodian's statement and the fiscal agent's statement.

21. REVIEW OF INVESTMENT PORTFOLIO

The securities held by the City must be in compliance with Section 17, Authorized and Suitable Investments, at the time of purchase. The Treasurer shall review the portfolios quarterly to identify any securities that are no longer in compliance. The Treasurer shall report any major and critical incidences of noncompliance in the quarterly treasurer's report to the City Council and Investment Advisory Committee.

22. INVESTMENT POLICY ADOPTION

The City Council shall review and adopt this Investment Policy by resolution annually.

GLOSSARY

AGENCIES - Agencies of the Federal government set up to supply credit to various classes of institutions (e.g., S&L's, small business firms, students, farmers, housing agencies, etc.) Examples include Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB) and Federal Farm Credit Bank (FFCB).

ASK/OFFER - The price at which securities are offered. (The price at which a firm will sell a security to an investor)

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

BASIS POINT - One one-hundredth of a percent (i.e., 0.01%)

BEAR MARKET - A period of generally pessimistic attitudes and declining market prices.

BID PRICE - The price at which a broker/dealer will buy securities from an investor.

BOND EQUIVALENT YIELD - The basis on which yields on notes and bonds are quoted.

BOOK VALUE (COST VALUE) - The purchase price of the security as recorded on the City's books.

BROKER/DEALER - An individual or firm acting as principal in a securities transaction.

BULL MARKET - A period of generally optimistic attitudes and increasing market prices.

CALLABLES - Securities that the issuer has the right to redeem prior to maturity.

CERTIFICATE OF DEPOSIT (CD) - A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

CMT - Constant Maturity Treasury - An index of the average yield on United

States Treasury securities adjusted to a constant maturity.

COLLATERAL - Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) - The official annual report of the City. It includes five combined statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP). It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

CORPORATE MEDIUM TERM NOTE - A security issued by a corporation doing business in the U.S. with a maturity not to exceed five years.

COST VALUE (BOOK VALUE) - The purchase price of the security as recorded on the City's books.

COUPON - a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value; b) a certificate attached to a bond evidencing interest due on a payment date.

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

DELIVERY VS PAYMENT - Delivery of securities with a simultaneous exchange of money.

DEMAND ACCOUNT - An account with a commercial bank from which check withdrawals may be made at any time.

DERIVATIVES - Financial products that are dependent for their value on (or derived from) an underlying financial instrument, a commodity, or an index representing values of groups of such instruments or assets.

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

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

FEDERAL FUNDS RATE – Interest rate charged by one institution lending federal funds to another.

FEDERAL OPEN MARKET COMMITTEE (FOMC) - Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FINANCIAL ADVISOR - A firm or bank that acts in a financial advisory capacity with respect to a new issue of municipal securities pursuant to a written contract.

FISCAL AGENT - A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD – The independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments.

INTERNAL RATE OF RETURN - Rate of return over the life of a security on variables.

LOCAL AGENCY INVESTMENT FUND (LAIF) - The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE - The price at which a security is trading, usually the liquidation value.

MASTER REPURCHASE AGREEMENT – A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

MONEY MARKET MUTUAL FUNDS – Open-ended mutual fund that invests in commercial paper, banker's acceptances, repurchase agreements, government securities, certificates of deposit and other highly liquid and safe securities, and pays money market rates of interest. The fund's net

asset value remains a constant \$1 a share, with the interest rate increasing or decreasing.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO)– A rating organization designated by the SEC as being nationally recognized.

OFFER PRICE - The price at which a broker/dealer will offer securities to an investor.

OPEN MARKET OPERATIONS - Federal Reserve activity. Under the Federal Reserve Act, the Fed uses purchases and sales of Government and Federal Agency securities to add to or subtract from commercial bank reserves. Goals are to sustain economic growth, high employment and reasonable price stability.

PAPER GAIN OR LOSS - Term used for unrealized gain or loss on securities being held in a portfolio based on comparison of current market quotes and their original cost. This situation exists as long as the security is held while there is a difference between cost value (book value) and the market value.

PORTFOLIO - Collection of securities held by an investor.

PRIMARY DEALER - A group of government securities dealers that serve as trading counterparties of the New York Fed in its implementation of monetary policy. This role includes the obligations to: (i) participate consistently in open market operations to carry out U.S. monetary policy pursuant to the direction of the Federal Open Market Committee (FOMC); and (ii) provide the New York Fed's trading desk with market information and analysis helpful in the formulation and implementation of monetary policy. Primary dealers are also required to participate in all auctions of U.S. government debt and to make reasonable markets for the New York Fed when it transacts on behalf of its foreign official account-holders.

RATE OF RETURN - The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity; on a bond, the current income return.

REPURCHASE AGREEMENT (REPO) – A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate them for this.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO) – A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specific date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

SAFEKEEPING - The service provided by banks and trust companies for clients when the bank or trust company stores the securities, takes in coupon payments, and redeems issues at maturity.

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

SEC RULE 15(C)3-1 – See Uniform Net Capital Rule.

SPREAD - a) The yield or price difference between the bid and offer on an issue; b) the yield or price difference between different issues.

SWAP - The sale of one issue and the simultaneous purchase of another for some perceived advantage.

TREASURY BILLS - A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

TREASURY BONDS – U.S. Treasury securities that have initial maturities of more than ten years.

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

TRUSTEE - A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

UNIFORM NET CAPITAL RULE - Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among

members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

WHEN ISSUED BASIS (WI) - A term applied to securities that are traded before they are actually issued with the stipulation that transactions are null and void if securities are not issued.

YIELD CURVE - Yield calculations of various maturities at a given time to observe spread difference.

YIELD TO MATURITY - The current coupon yield minus any premium above par, or plus any discount from par in the purchase price with the adjustment spread over the period from date of purchase to maturity.

Exhibit A

CITY OF IRVINE

Request for Qualifications Selection of Broker/Dealer Firms

I. Introduction:

The City of Irvine (City) has issued a Request For Qualifications (RFQ) for the purpose of maintaining an Approved List of qualified broker/dealers. It is the intent of the City to promote an open and thorough process, subject to periodic review, where qualified broker/dealer firms may be added (or removed) from the Approved List. The Approved List will be in effect for a period of three (3) years. At the conclusion of the three year period the City will issue a new RFQ. The approval process will be conducted by the City's Investment Advisory Committee (IAC).

The RFQ process will include specific criteria that the City of Irvine believes is necessary for broker/dealer firms to efficiently and competitively "offer or bid" eligible securities to be purchased and sold by the City's Investment Manager. Broker/dealers on the Approved List will be used strictly for trade execution purposes only.

The City Treasurer, designated City staff, and the City's Investment Manager will participate in the evaluation process. After a review of RFQ responses, the review team will submit the approved list of broker/dealers to the IAC. Each firm on the list will be required to complete an Acknowledgement of Compliance Standards for Investment Transactions (Attachment 1). Once the list of all qualified firms has been approved, the City's Investment Manager will utilize such firms when executing investment transactions for the various portfolios of the City.

The City's Investment Manager will meet (or discuss via conference call) with the approved broker/dealer firms for the purpose of reviewing the City's Investment Policy (Attachment 2), defining the types of investment strategies that may be employed during differing bond market environments, identifying various eligible investments to be utilized for the portfolios, reviewing the securities selection process and how securities are evaluated prior to purchase, and reviewing other technical matters relevant to promoting an efficient and competitive trade execution process.

The City's Investment Manager will review the quality of the broker/dealer coverage based upon the criteria as presented in this RFQ, and notify the IAC, City staff, and the City Treasurer of any deficiencies in the quality of coverage. Recommendations to add or delete may be made at any time, as recommended by the City's Investment Manager and approved by the City Treasurer and the IAC.

The number of broker/dealers on the City's approved list will vary based upon the need to balance a competitive process within the context of manageable and efficient executions.

II. Brief Overview of the City of Irvine's Investment Program

The City of Irvine (the City) is a statutory (home rule) Government operating under the laws of the State of California and the City's Municipal Code. The City's main portfolio, comprised of operating funds, ranges in size from \$300 - \$450MM. The Pooled Investment Portfolio primarily contains various Federal Agency obligations, both non-callable and callable. The City also maintains a bond proceeds portfolio and several Special Districts accounts, primarily comprised of short-maturity securities. The City's investment program is governed under California Government Code 53601 and is further defined by an adopted Investment Policy.

III. Minimum Qualifications of Respondents

Candidate broker/dealers:

- (1) Must be licensed to operate as a broker/dealer in the State of California.
- (2) Must be employed by a firm that qualifies under the Securities and Exchange Commission Rule 15C3-1 (Uniform net capital rule).
- (3) Must be in good standing with the appropriate regulatory agencies.

Note: Good standing includes both the broker/dealer firm as well as the registered representative assigned to the City's account.

- (4) Must have a working knowledge of the State of California Government Code § 53601 that governs public funds investment.

Note: Selected broker/dealers must sign the City's approved Investment Policy as an acknowledgement of receipt and comprehension.

- (5) Must provide audited annual financial statements and SEC 10K reports evidencing the current and historical profitability of the firm.
- (6) Must have institutional fixed-income experience.

Broker/dealer firms and the registered representative assigned to the City's

account must be experienced in the area of institutional fixed-income. Specific experience illustrating knowledge of the one to five year yield curve will be considered during the review process. The City's Investment Manager may utilize approved broker/dealers where they demonstrate their most efficient and competitive executions. However, all broker/dealers must be capable of offering all eligible securities, as defined in the City's approved Investment Policy. Such offerings may include US Treasury Bills, commercial paper, bankers' acceptances, US Treasury Notes, and federal agency discount notes, and new-issue and secondary Federal agency obligations.

(7) **Participation in New-Issue Federal Agency Securities**

Broker/dealers will be asked to provide details of the amount and structure of new-issue federal agency issues sold to institutional accounts over the preceding three-year period.

IV. Additional Criteria:

In addition to the minimum requirements set forth in the RFQ, the City may elect to include the following additional criteria during the evaluation process:

1. Registered representatives who are employed by a broker/dealer firm whose offices are located in Southern California, preferably within the City of Irvine, and the registered representative of the broker/dealer is working at the California location.
2. Registered representatives of broker/dealers who provide coverage to other California local agencies with portfolios similar to the City of Irvine.
3. Total capital and/or capital adequacy ratio of the firm.
4. Whether the firm is self-clearing or has outside clearance arrangements.

Note: The clearing arrangements of broker/dealers with total capital of less than \$10MM will be examined before any firm is added to the approved list.

5. The current and historical profitability of the firm.
6. If the firm has insurance to cover any losses that may be attributable

to errors that have impacted the City's investment program (i.e., unresolved delivery problems, delivery of incorrect securities).

V. Submittal Information

Statements of Qualifications must be submitted to the Purchasing Agent, City of Irvine, no later than January XX, 20XX at 5:30 p.m.

If hand delivered to the Civic Center, proposals shall be submitted to the Receptionist for the Purchasing Agent at the Reception Desk located on the first floor. Statements of Qualifications shall be submitted in sealed envelopes marked on the outside, "Broker-Dealer Services, RFQ No. XX-XXXX." Responses are limited to 20 pages total. Submit one (1) original, one copy, and a PDF on CD of the Statement of Qualifications. The original Statement of Qualifications must be unbound. Confidential financial information should be submitted in a separate sealed envelope, marked, "Confidential."

Submit Statements of Qualifications to:

By mail:

City of Irvine
Purchasing Agent
P.O. Box 19575
Irvine, CA 92623-9575

Overnight or hand delivery:

City of Irvine
c/o Receptionist for Purchasing Agent
1 Civic Center Plaza
Irvine, CA 92606-5208

Any requests for clarification or other questions concerning this RFQ must be submitted in writing and sent via email to Donna Mullally at dmullally@cityofirvine.org, with a copy to Tracy Hamilton at tphamilton@cityofirvine.org, no later than December XX, 20XX at 5:30 p.m.

LATE STATEMENTS OF QUALIFICATIONS WILL NOT
BE ACCEPTED

The City of Irvine reserves the right to reject any or all Statements of Qualifications, to waive any informality in any Statement of Qualifications, and to select the Statements of Qualifications that best meet the City's needs.

Please respond to the following items using this form along with additional sheets if needed.

Request for General Information from Broker/Dealer Candidate

1. Name of firm:
 Address – Local:
 Headquarters:
 Telephone – Local:
 Headquarters:

2. Primary Representative (provide an attachment if more space is required)

Name:
Title:
Telephone:
Email Address:
Address:

Additional Staff

Name:
Title:
Telephone:
E-mail Address:
Address:

Name:
Title:
Telephone:
E-mail Address:
Address:

Provide background information concerning the account representatives listed in above. Please include information on the individual's employment history as it relates to the securities industry, official licenses and certificates, the history and details of any disciplinary actions or complaints and the disposition of each as well as the history of any arbitration or litigation, the nature of the case and status or disposition.

3. Has/have the representative(s) listed in No. 2 been authorized by the firm to be the account representative(s) for the City of Irvine?

Yes _____ No _____

If Yes, by whom? _____

4. Has/have the representative(s) listed in No. 2 obtained all required licenses to operate as a broker/dealer in the State of California?

Yes _____ No _____

5. Please list the name, and title of the immediate supervisor of the account representative(s) named in your response to No. 2 above.

1. _____
2. _____

6. Briefly describe any formal program of supervision of the account representative(s) named in No. 2 if your firm has established such a program.

7. Is the firm a:

Primary Dealer _____ Regional Dealer _____ Brokerage Firm _____

8. Has the firm consistently complied with the Federal Reserve Bank's capital adequacy guidelines? Include certified documentation of your current capital adequacy as measured by Federal Reserve standards.

9. Please provide the firm's and primary representative's experience in covering fixed income institutional accounts, in particular public entities. Please indicate the percentage of the firm's accounts that are comprised of

public entities.

10. Please provide the following information regarding at least four comparable clients with whom any of the representatives listed in No. 2 have an established relationship.

Client Name:
Contact Person:
Address:
Phone:
Length of relationship:

Client Name:
Contact Person:
Address:
Phone:
Length of relationship:

Client Name:
Contact Person:
Address:
Phone:
Length of relationship:

Client Name:
Contact Person:
Address:
Phone:
Length of relationship:

11. Does the firm self-clear securities? Yes _____ No _____

If no, please provide specific details of the firm's clearing arrangements. Include details of your firm's internal process for ensuring that delivery in good order occurs on settlement date.

12. Describe the firm's insurance to cover losses that may occur if securities are not delivered, or if the delivery of incorrect securities causes a loss to the City.

13. Is the firm able to offer all eligible securities as defined in the City's Investment Policy?

Please respond to the following questions in a comprehensive manner by providing specific details of the Firm's agency offerings.

1. Participation in New-Issue Federal Agency Securities

Please discuss each of the following categories, where relevant, regarding your firm's participation and experience as a participant in the underwriting of new-issue Federal Agency obligations. Provide specific information such as issuance size, structure, and par amount sold attributable to your firm:

- (1) Approved by one or more federal agencies as an underwriter of their debt issuance program; name the federal agencies.
- (2) Participated as a selling group member of one or more federal agencies.
- (3) The firm regularly obtains federal agency securities from selling group members during syndication periods.
- (4) The firm has experience as a sole underwriter.

2. Reverse Inquiries

Detail the firm's experience in underwriting and/or participating in "reverse inquiries", including the structure of such underwritings.

3. Structure of Past Issuances

Please provide information regarding the type (i.e., discount notes, fixed or floating rate) and call structure of issuances in which the firm participated as an underwriter. Please provide information regarding the types and structures in which the firm participated as a selling group member.

4. Participation in the Secondary Market

Please describe your firm's capacity to "offer" or "bid" secondary market

issues. Has the firm regularly offered and delivered specifically defined securities or structures as requested by your institutional client(s)? If an order for specific securities was not filled, has the firm offered alternative securities with similar structures (and price) that “fit” the institutional client’s criteria? Please provide examples.

5. Access to Inventory

Does the firm maintain its own inventory positions that can be accessed by the City’s Investment Manager? If not, please discuss the firm’s ability to acquire an inventory of specific securities, as identified by the City’s Investment Manager.

At the option of the City’s Investment Manager the firm may be asked to offer other securities of similar structure and yield spread. Please provide past examples of inventory items that your firm has listed (for consideration by your institutional clients), including accompanying specifics of the offerings.

6. Order-Based Transactions

On occasion, the City’s Investment Manager may periodically request an offering of securities that fits the current investment strategy where the market yield of such securities is priced at a yield spread versus the yield of various “benchmark” securities. Please describe past transactions, including the firm’s ability to fill such orders in a timely manner and at price levels equivalent to the market’s existing yield spread basis, versus the relevant benchmark securities, at the time of execution.

Explain your methods of pricing an offering; i.e., the price based upon a yield spread basis and/or the spread of other comparable securities, or both. Provide recent examples.

7. Delivery of Securities

All firms must demonstrate their ability to deliver securities on settlement date. Only delivery versus payment transactions to the City’s designated custodian bank will occur. Regular delivery “fails” will be grounds for removal as an approved broker/dealer. Please provide the number and percentage of failed trades within the last year.

Note: The City utilizes a third party custodian bank and numerous trustee accounts to safekeep its securities. All broker/dealers must deliver securities to the custodian versus payment.

VI. Request for Broker/Dealer Candidate Disclosure

1. To the best of your knowledge, has there been any “material” litigation, arbitration or regulatory proceedings, either pending, adjudicated or settled, that the firm has been subject to within the last five years that involved issues concerning the suitability of the sale or purchase of securities to institutional clients or fraudulent or unfair practices related to the sale of securities to an institutional client? If so, please describe each such matter briefly. For purposes of this section, proceedings are “material” if your independent accountant applying generally accepted accounting principles determines that such proceedings required disclosure on your financial statements.
2. Has this firm, or the representatives assigned to this account, been subject to a regulatory agency, state or federal investigation for alleged improper, disreputable, unfair or fraudulent activities related to the sale of securities or money market instruments in the past five years that resulted in suspension or censure? Are there outstanding claims? If yes, please explain.
3. Have any of your public-sector clients ever sustained or claimed a loss on a securities transaction or loss of principal arising from a misunderstanding or misrepresentation of the risk characteristics of a recommended instrument purchased through your firm? If yes, please explain.
4. Describe the precautions taken by your firm to protect the interests of the public when dealing with a governmental agency.
5. Please include annual audited financial statements with this RFQ for the past three fiscal years which confirm compliance with the capital adequacy standard and indicate the amount of the firm’s liquid capital. Also include current fiscal year SEC 10K reports. Confidential financial information should be submitted in a separate sealed envelope, marked, “Confidential.”
6. Please include a letter from a Certified Public Accountant indicating there are no material weaknesses in the firm’s internal control systems.

VII. Certification

I hereby certify that I have personally read the City of Irvine's Investment Policy and the California Government Code pertaining to the investments of the City of Irvine; that the above information is true and correct to the best of my knowledge; and that I am authorized to execute this RFQ on behalf of _____

Signed _____

Print Name _____

Title _____

Date _____

Counter signature by Company President or person in charge of government securities operations:

Signed _____

Print Name _____

Title _____

Date _____

Definitions:

A “Benchmark” security is a bond or note of a significantly large issuance size whose yield at a moment in time is used to establish the price of another security, based upon a yield spread. Both new-issue federal agencies and securities in the secondary market are regularly offered on this basis. For example, the current 2-yr, 3-yr, or 5-yr US Treasury Notes are primarily used when examining the yield spread that exists in the bond market when determining the market price or yield of a federal agency obligation as established by market forces. The shape of the yield curve typically affects changes in yield spreads between asset classes.

A “Reverse Inquiry” occurs when the client selects a broker/dealer to underwrite an issue (federal agency) based upon specific structural criteria defined by the client. A firm participates in a reverse inquiry by selling portions of the issue size to other clients. Selling a portion of the issue to other clients is more difficult since the original structure was customized by the original client.

Exhibit B

BYLAWS OF THE INVESTMENT ADVISORY COMMITTEE OF THE CITY OF IRVINE

ARTICLE I - PURPOSE

The purpose of the Investment Advisory Committee is to oversee the management of the investment portfolio through regular quarterly meetings. The Committee will review investment transactions, discuss economic conditions and strategies regarding the management of the portfolio, and report to individual Councilmembers on the meetings.

ARTICLE II - STRUCTURE

The Committee shall be comprised of five members. Each Councilmember shall be responsible for appointing one member to the Committee with the term of the member running concurrent with the term of the Councilmember making the appointment.

The Chairperson and Vice Chairperson of the Committee shall be elected by a majority vote of the members and shall hold the seat for a one-year term. These positions may be elected for two consecutive terms. At the end of the second consecutive term, the members shall elect a new Chairperson and Vice Chairperson.

ARTICLE III - MEETINGS

The meetings shall be held at least quarterly at Irvine City Hall. Each meeting shall be held prior to the presentation of the quarterly report to Council on the status of the portfolio. Three members of the Committee must be present to constitute a quorum.

ARTICLE IV - PARLIAMENTARY PROCEDURE

The rules contained in the current edition of Robert's Rules of Order, newly revised, shall govern the Committee in all cases to which they are applicable and where they are not inconsistent with these Bylaws.

ARTICLE V - AMENDMENT OF BYLAWS

These Bylaws may be amended by a majority vote of the Committee.