

Investment Policy

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CITY OF ONTARIO
STATEMENT OF INVESTMENT POLICY

I. PURPOSE

This statement is intended to: (a) describe the policies and procedures utilized in the City's investment management system; (b) put in place guidelines for the prudent investment of the City's funds, and (c) list and describe suitable investments.

The goals of the City's investment policy and investment management function are enhancement of the economic status of the City and protection of the City's funds.

The investment policies and practices of the City of Ontario are based upon federal and state law and prudent money management principles. The primary goals of these policies are:

- A. To assure compliance with all laws governing the investments under the control of the City Treasurer.
- B. To protect the principal monies entrusted to this office.
- C. To generate the maximum amount of investment income consistent with the parameters established in this Statement of Investment Policy.

II. SCOPE

This investment policy applies to all monies belonging to the City of Ontario, and proceeds from bonds or notes issued by the City of Ontario and any authorized special districts. Bond proceeds and any funds associated with bond issues and other monies arising from bond indebtedness are further restricted by the pertinent bond indenture. Funds described above are accounted for in the City's Comprehensive Annual Financial Report.

The City will comply with all applicable sections of the Internal Revenue Code of 1986, Arbitrage Rebate Regulations and bond covenants with regard to the investment of bond proceeds.

All monies entrusted to the City Treasurer will be pooled in an actively managed portfolio and will be referred to as the "fund" or the "portfolio" throughout the remainder of this document.

In accordance with State law and under the authority granted by the City Council in its resolution dated February 17, 2004, the City Treasurer and Deputy City Treasurer(s) are authorized to invest the unexpended cash in the City treasury. The responsibility for the day-to-day investment of the City's funds is delegated to the Investment Officer. In the absence of the Investment Officer, the Deputy City Treasurers will be responsible for the investment function.

III. PRUDENCE

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent investor" standard (California Government Code Section 53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers, acting in accordance with written procedures and the investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

IV. OBJECTIVES

A. Safety of Principal

Safety of principal is the foremost objective of the investment policies and practices of the City of Ontario. Investment decisions shall seek to minimize net capital losses on a portfolio basis. This policy recognizes that market conditions may warrant the sale of individual securities incurring losses in order to protect against further and more substantial capital losses. The intent of this policy is to ensure that capital losses are minimized on a portfolio level rather than on each transaction. The City shall seek to preserve principal by mitigating credit risk and market risk.

- 1) Credit Risk – Defined as the risk of loss due to failure or insolvency of an issuer; shall be mitigated by diversifying the fund so that the failure of any one issuer would not unduly harm the City's cash flow. No more than 3% of the portfolio may be invested (at time of purchase) in the securities of any one single issuer except the U.S. Government, its agencies, or the State of California Local Agency Investment Fund.
- 2) Market Risk – Defined as the risk of market value fluctuations due to changes in the general level of interest rates. Because longer maturity fixed-income securities have greater market risk than shorter maturity securities, market risk will be mitigated by limiting the weighted average maturity of the fund to 2 ½ years. It is explicitly recognized that in an active portfolio occasional losses are inevitable and must be considered within the context of the overall investment return.

B. Liquidity

The City's fund will be structured to ensure that the projected expenditure requirements of the City for the next six months can be met with a combination of anticipated revenues, maturing securities, principal and interest payments and liquid instruments as required by California Government Code Section 53646.

C. Performance Measurement

The performance of the City's investment portfolio will be measured on a total return basis. The portfolio's performance will be measured against a benchmark of the Merrill-Lynch 1-3 year Treasury Index. The index's returns are reported monthly on the City's current portfolio report.

V. SAFEKEEPING OF SECURITIES

With the exception of insured Certificates of Deposit and the Local Agency Investment Fund of the State of California, all securities owned by the City, including collateral for repurchase agreements, shall be held in safekeeping by the City's custodial bank or a third party bank trust department acting as agent for the city under terms of a custody or trustee agreement executed by the bank and the City. All securities will be received and delivered using standard delivery versus payment (DVP) procedures and in accordance with State Code.

VI. REPORTING

The City Treasurer is required to submit an investment report on a quarterly basis to the City Manager, the Internal Auditor, and the City Council, in accordance with California Government Code Section 53646. The report is required to be submitted within 30 days of the end of the quarter. The City Treasurer has elected to provide this report monthly. This report will include the following information:

- Type of investment instrument (i.e. Treasury Bill, CD)
- Issuer name (i.e. US Treasury Note)
- Purchase date (trade and settlement date)
- Maturity date
- Par value
- Purchase price
- Current market value and source of valuation
- Overall portfolio yield based on cost
- Statement of compliance of the portfolio to the investment policy or an explanation of the manner in which the portfolio is not in compliance
- Description of any of the City's funds that are under the management of contracted parties.
- Statement denoting the ability of the City to meet its expenditure requirements for the next six months, or an explanation as to why sufficient money may not be available.

VII. QUALIFIED DEALERS

The Investment Officer shall maintain a list of financial institutions qualified to do business with the City. Banks and broker/dealers will be selected on the basis of creditworthiness, experience, and capitalization. Prior to approval, they must read and sign the City's Broker/Dealer Questionnaire and Certification. In accordance with California Government Code Section 53601, a bank or broker/dealer must be qualified as a dealer regularly reporting to the New York Federal Reserve Bank (a "primary dealer") to conduct repurchase agreements with the City.

VIII. COMPETITIVE BIDDING

It will be the policy of the City to transact all U. S. Treasury securities purchases and sales through a formal and competitive process requiring the solicitation and evaluation of at least three bids/offers. The City will accept the offer, which provides (a) the highest rate of return; and (b)

optimizes the investment objectives of the overall portfolio. The purchase of securities other than U.S. Treasuries (corporate notes, Agencies, mortgage-backed securities, etc.) will be executed differently. This is due to the lack of homogeneity among these products and their availability (or unavailability) in dealer inventories. Because of the individualized nature of these securities, it is usually not possible to get more than one offer on the same instrument. Therefore, when purchasing non-Treasury securities, the Investment Officer shall make a subjective evaluation regarding the relative attractiveness of various offers, taking into account maturity, credit ratings, structure and other factors which influence pricing. When selling a security, the City will select the bid, which generates the highest sale price. It will be the responsibility of the personnel involved in each transaction to produce and retain written records, including the name of the financial institutions solicited, price/rate quoted, description of the security, bid/offer selected, and any special considerations that had an impact on the decision.

IX. PURCHASE AND SALE OF SECURITIES

Purchases and sales of securities will be executed only by the Investment Officer and in his absence the Deputy City Treasurer. All transactions will be reviewed and approved by the City Treasurer.

X. POLICY REVIEW

The City Treasurer shall annually render to the City Council a statement of investment policy, which shall be considered at a public meeting. Any changes in the policy shall also be considered by the City Council at a public meeting.

XI. AUTHORIZED INVESTMENTS

A. The City's Investment Portfolio is governed by California Government Code, Section 53600 et seq. Within the context of these limitations, the following investments are authorized, as further limited herein:

- 1) United States Treasury Bills, Notes, and Bonds, or those securities 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 fund, which can be invested in this category.
- 2) Obligations issued by various agencies of the Federal Government including, but not limited to, the Federal Farm Credit Bank System, the Federal Home Loan Bank System, the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Student Loan Marketing Association as well as such agencies or enterprises which may be created. There is no percentage limitation on the dollar amount which can be invested in Agency issues in total, no more than 20% of the cost value of the portfolio may be invested in the securities of any one issuer.
- 3) Bills of exchange or time drafts drawn on and accepted by a commercial bank, commonly known as banker's acceptances. Banker's acceptances may not exceed 180 days to maturity. To be eligible for purchase, banker's acceptances must be rated B/C or higher by Thomson Bankwatch. No more than 40% of the cost value of the portfolio may be invested in banker's acceptances and no more than 5% of the cost value of the portfolio may be invested in banker's acceptances of any single bank.

- 4) Commercial paper rated “A1” by Standard and Poor’s and “P1” by Moody’s Investor Services, and issued by a domestic corporation having assets in excess of \$500 million and having an “A” or better rating on its long-term debentures as provided by Moody’s or Standard and Poor’s. Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper on an issuing corporation. Purchases of commercial paper may not exceed 15% of the portfolio, which may be invested pursuant to this section. An additional 15% or a total of 30% of the agency’s money may be invested pursuant to this subdivision. The additional 15% may be so invested only if the dollar weighted average maturity of the entire amount does not exceed 31 days.
- 5) Negotiable certificates of deposit issued by a nationally or State chartered bank or a State or Federal savings institution, or a State licensed branch of a foreign bank (“Yankee”). Purchases of negotiable certificates of deposit may not exceed 30% of the cost value of the portfolio. To be eligible for purchase by the City, the certificate of deposit must be rated A-1 by Standard and Poor’s and P-1 by Moody’s.
- 6) Repurchase Agreements – The City may invest in repurchase agreements with primary dealers of the Federal Reserve Bank of New York with which the City has entered into a master repurchase agreement. The Public Securities Association master repurchase agreement is the “master repurchase agreement”. The maturity of repurchase agreements shall not exceed one year. The market value of securities used as collateral for repurchase agreements shall be valued at no less than 102% of the value of the repurchase agreement. Collateral pricing will be monitored no less than monthly by the investment staff and not be allowed to fall below 102% of the value of the repurchase agreement. In order to conform to provisions of the Federal Bankruptcy Code which provide for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable to the city as collateral shall be securities that are direct obligations of, or that are fully guaranteed as to principal and interest, by the United States or any agency thereof. Investments in repurchase agreements may not exceed 20% of the cost value of the fund.
- 7) Local Agency Investment Fund - The City may invest in the Local Agency Investment Fund (“LAIF”) established by the State Treasurer for the benefit of local agencies up to the maximum permitted under Section 16429.1 of the Government Code.
- 8) Time Deposits – The City may invest in non-negotiable time deposits collateralized in accordance with the California Government Code, which meet the requirements for investment in negotiable certificates of deposit. The City may invest in insured certificates of deposit with individual depository institutions up to the insured limit. No more than 25% of the fund may be invested in this category.
- 9) Medium-term notes of a maximum of five years maturity 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. The issuing corporation must have a minimum rating of “A” by both Standard and Poor’s and Moody’s and have in

excess of \$500 million in shareholder equity. Purchase of medium-term notes may not exceed 30% of the cost value of the fund with no more than 15% of the cost value of the fund rated below "AA" by both Standard and Poor's and Moody's. No more than 3% of the fund (at time of purchase) may be invested in any one corporate name, including the parent corporation or subsidiaries.

- 10) Any U. S. Government Agency's Mortgage pass-through security, collateralized mortgage obligations, mortgage-backed or other pay-through bond, equipment lease-backed certificate, or consumer receivable-backed bond Securities eligible for investment under this section shall be rated in a rating category of "AAA" by a nationally recognized statistical rating organization and have a maximum remaining maturity of 5 years or fewer. The securities must be rated "AAA" by Moody's or Standard and Poor's. Purchase of securities authorized by this subdivision may not exceed 20% of the cost value of the fund.
- 11) Bonds, notes, warrants or other evidences of indebtedness of any local agency of this state, 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, board, agency, or authority of the local agency.
- 12) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the state or by a department, board, agency or authority of the state
- 13) Bonds, notes, warrants, or other evidence of indebtedness of a local agency within this state, 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, board, agency, or authority of the local agency.
- 14) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated "AA" or better by an NRSRO and shall not exceed 9 percent of the agency's moneys that may be invested pursuant to this section. Investment in these issues is further limited to a 5 percent allocation in any one name.

B. In the event of a rating downgrade of security in the City's portfolio by any of the applicable rating agencies (Standard and Poor's or Moody's) to a rating category below the minimum required for purchase, the Investment Officer will document such downgrade in writing. The Investment Officer will also communicate to the City Treasurer a recommended course of action for said security.

The maximum allowable maturity for all securities purchased shall be no greater than 5 years from the settlement date if the maturity has not been further limited in subsections (1) through (12).D. The 5-year maturity limitation may be exceeded only when investing in securities referred to in section 11 above and only with prior City Council approval. Ineligible investments – investments not described herein-, are prohibited for purchase in the City's portfolio. Specifically prohibited as of January 1, 1996 are: Inverse floaters, range notes, interest-only strips derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.