

CITY OF FULLERTON
INVESTMENT ADVISORY COMMITTEE

MINUTES

Regular Meeting
City Council Chambers
303 West Commonwealth Avenue
Thursday, January 15, 2026 at 5:30 p.m.

CALL TO ORDER

The meeting was called to order at 5:37 pm.

ROLL CALL

Members Present: David Golumbic, Committee Member
Ted Kim, Committee Member
Yoon Jae Park, Committee Member
Shana Charles, Council Member

Absent: Z.J. Hahn, Committee Member (Excused)

Consultants: John Grady with Public Trust Advisors
Sarah Meacham with Public Trust Advisors
Ashley Baires with Public Agency Retirement Services
Keith Stribling with PFM Asset Management

Staff Present: Steven Avalos, Interim Director of Administrative Services
Lucinda Williams, City Clerk
Noah Hyun, Administrative Analyst I

OATH OF OFFICE

ORIENTATION

PUBLIC COMMENTS

None.

ACTION OR DISCUSSION ITEMS

Item 1 Selection of Chair and Vice Chair for the Investment Advisory Committee.

Council Member Charles nominated David Golumbic for Committee Chair. No other nominations were made. Council Member Charles motioned to close nominations; David Golumbic seconded the motion to close nominations. Nomination was unanimously approved by members present.

Council Member Charles nominated Z.J. Hahn for Vice Chair. No other nominations were made. David Golumbic motioned to close nominations; Council Member Charles seconded the motion to close nominations. Nomination was unanimously approved by members present.

Item 2 Approval of Minutes from the Regular Meeting of January 16, 2025.

Item was approved unanimously.

Item 3 Review of City's Pension and OPEB Plan (115 Trust) Investment Portfolio.

Ashley Baires with PARS and Keith Stribling with PFM Asset Management presented the City's Pension and OPEB Plan (115 Trust) Investment Portfolio Report.

No recommendations from IAC.

Item 4 Review of Economic Update and Market Update for the quarter ending December 31, 2025.

John Grady and Sarah Meacham with Public Trust Advisors presented the Economic and Market Update for quarter ending December 31, 2025.

Item 5 Review of current portfolio strategy and provide direction.

John Grady and Sarah Meacham with Public Trust Advisors presented the current Investment Portfolio and Portfolio Strategy.

No recommendations from the IAC.

Item 6 Update on SB827 by City Clerk.

The update on SB827 was presented at the beginning of the meeting during the orientation.

ADJOURNMENT

The meeting was adjourned at 6:58 p.m. The next regular meeting is scheduled for 5:30 p.m. Thursday, April 16, 2026, at Fullerton City Hall, 303 W. Commonwealth Avenue, Fullerton, CA 92832.

City of Fullerton

Investment Advisory Committee Meeting

Steve Huntley, CPFO
Sr. Portfolio Strategist

Mia Corral Brown
Regional Director



Experienced Team



Mia Corral Brown

Regional Director:
Southern California

*29 Yrs. Industry
Experience*

Relationship
Management, Client
Engagement



Steve Huntley, CPFO

Senior Portfolio
Strategist

*22. Yrs Industry
Experience*

Portfolio Strategy and
Research



Aaron Nail, CFA

Portfolio Manager

*9 Yrs. Industry
Experience*

Portfolio Strategy and
Research



Gabrielle Eacock

Sr. Client Service
Specialist

*7 Yrs. Industry
Experience*

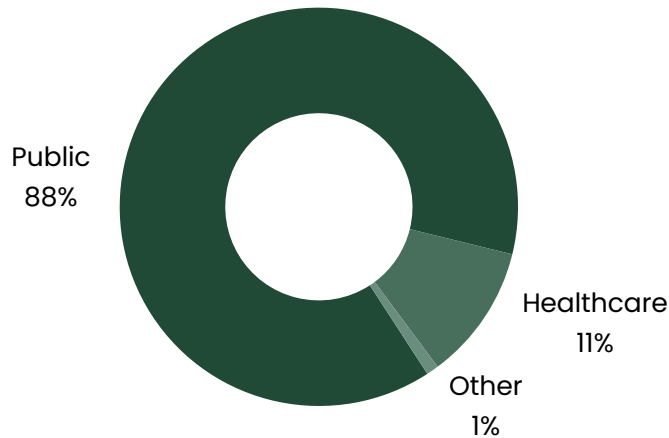
Client Service and
Reporting

Firm Snapshot

Markets are volatile, but your stakeholders crave certainty. We take a proactive approach to investment management that helps clients like you navigate the curve.

Assets Under Management: \$45.3 B

As of December 31, 2025



Track Record of Growth

Data as of December 31 of each year

	Total AUM (\$B)	Employees
2021	\$25.8	33
2022	\$28.6	41
2023	\$35.8	47
2024	\$41.6	52
2025	\$45.3	54

Fast Facts

- SEC-Registered Investment Adviser
- Founded in 1988 by public finance professionals.
- 100% owned by current and former employees through an Employee Stock Ownership Plan.
- Headquartered in San Diego, CA with offices in Ventura, CA; Oakland, CA; Marin County, CA; Seattle, WA; Denver, CO; and Clearwater, FL.

Tailored Investment Solutions, Customized Guidance & Support

- We listen first, then customize an investment strategy specific to your agency's needs, goals and risk profile. We don't have a one-size-fits-all approach.
- You'll have direct access to the investment management team members guiding your portfolio.
- We will set you up for success with reporting and presentations catered to your stakeholders.

Public Agencies by the Numbers*

88%

Percentage of
Firm AUM from
public agency
clients

235+

Total number of
public agency
clients across
the country

100+

Cities that rely
on Chandler to
manage
investments

37

Years Chandler
has been
serving public
agencies



Partnerships with Neighboring Agencies

\$35 Billion in AUM for California-based agencies as of 12/31/2025

Orange County Clients

City of Brea
 City of Buena Park
 City of Costa Mesa
 East Orange County WD
 City of Fountain Valley
 City of La Habra
 City of Mission Viejo
 Moulton Niguel WD
 City of Newport Beach
 City of Orange
 OC Transportation Authority
 City of San Clemente
 City of San Juan Capistrano
 Santa Ana Watershed Project Authority
 South Coast WD
 City of Stanton
 Transportation Corridor Agencies
 City of Tustin
 City of Westminster

Inland Area Clients

City of Riverside
 City of Chino Hills
 Coachella Valley WD
 City of Corona
 Beaumont Cherry Valley Water
 Elsinore Valley Muni WD
 City of Indio
 Jurupa Valley
 City of Menifee
 City of Moreno Valley
 City of Murrieta
 City of Palm Springs
 City of Perris
 Rancho California WD
 San Bernardino Muni WD
 City of San Jacinto
 Temescal Valley WD
 West Valley WD

Los Angeles Area Clients

City of Bell
 City of Beverly Hills
 City of Camarillo
 Crescenta Valley WD
 City of El Monte
 City of Gardena
 City of La Mirada
 LA County MTA
 City of Monterey Park
 City of Pico Rivera
 City of Pomona
 City of Port Hueneme
 Three Valleys Muni WD
 Upper San Gabriel Muni WD
 Walnut Valley WD

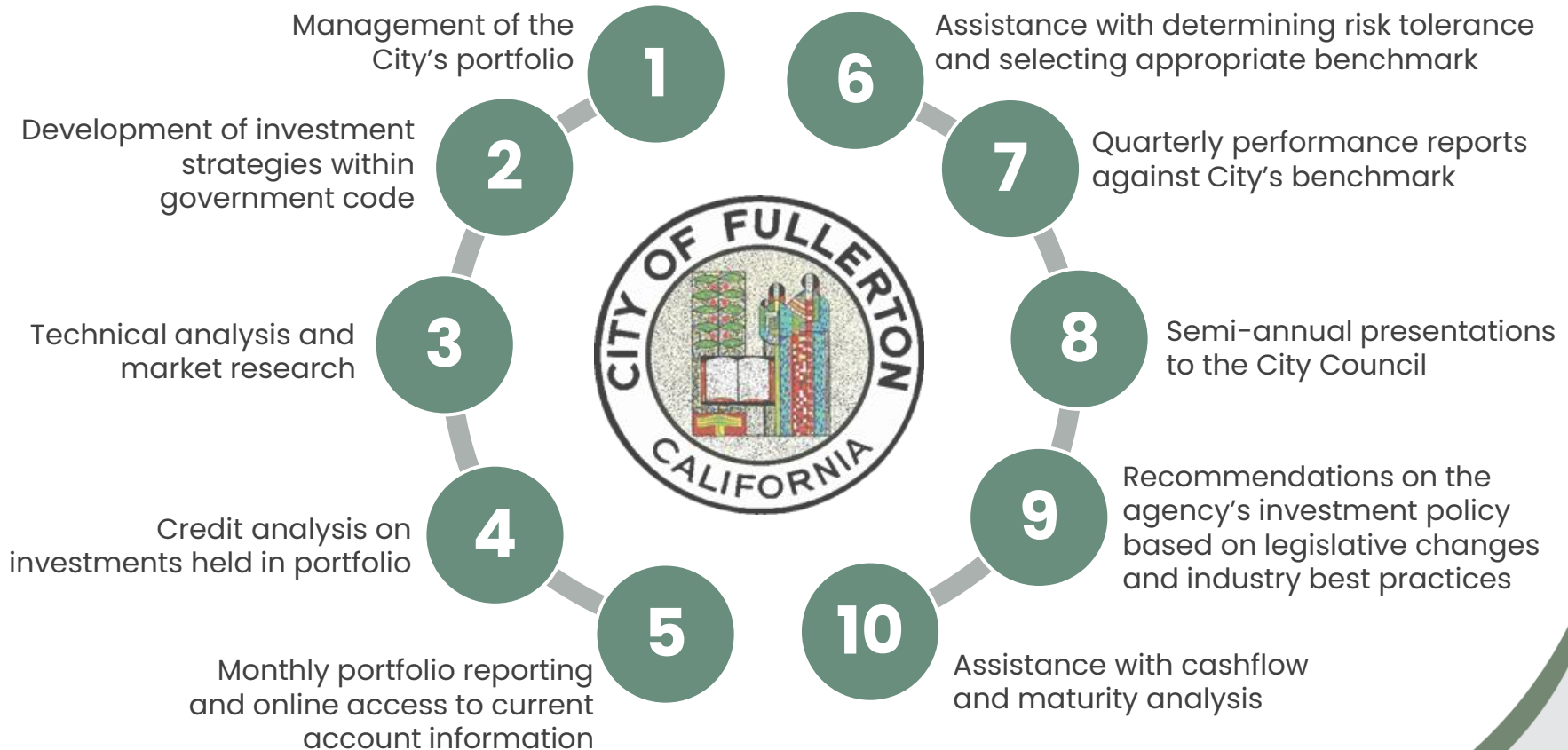
San Diego Clients

City of Chula Vista
 City of Imperial Beach
 City of National City
 City of Oceanside
 County of San Diego (advisory)
 San Diego County Regional Airport
 San Diego County Water Authority
 City of San Marcos
 City of Solana Beach
 San Diego Community Power
 San Diego Unified School District

A listing of the Firm's clients in the State of California's Inland area, Los Angeles, Orange County and San Diego County as of 12/31/2025. This list only includes clients that have given permission to be listed. It is not known whether the clients listed approve or disapprove of Chandler Asset Management and the advisory services provided. Includes discretionary and non-discretionary relationships.

Collaborating on All Aspects of your Investment Program

Chandler is committed to executing your scope of services so that you can meet the City's investment goals



Building an Investment Program

Initial Steps



Ongoing Management

- Credit analysis of security issuers and financial institutions
- Asset-liability management
- Broker/dealer due diligence and relations
- Consistent application of a disciplined, conservative investment process

Approach Focused On:

- Safety of principal*
- Appropriate levels of liquidity
- Diversification of risk
- Generating market yield and return
- Compliance with legal requirements, policies, and objectives

**While Chandler focuses on safety of principal by investing in conservative investment-grade quality bonds, investors should be aware that bonds and other fixed income securities do carry some degree of risk and we cannot ensure a profit nor guarantee against loss.*

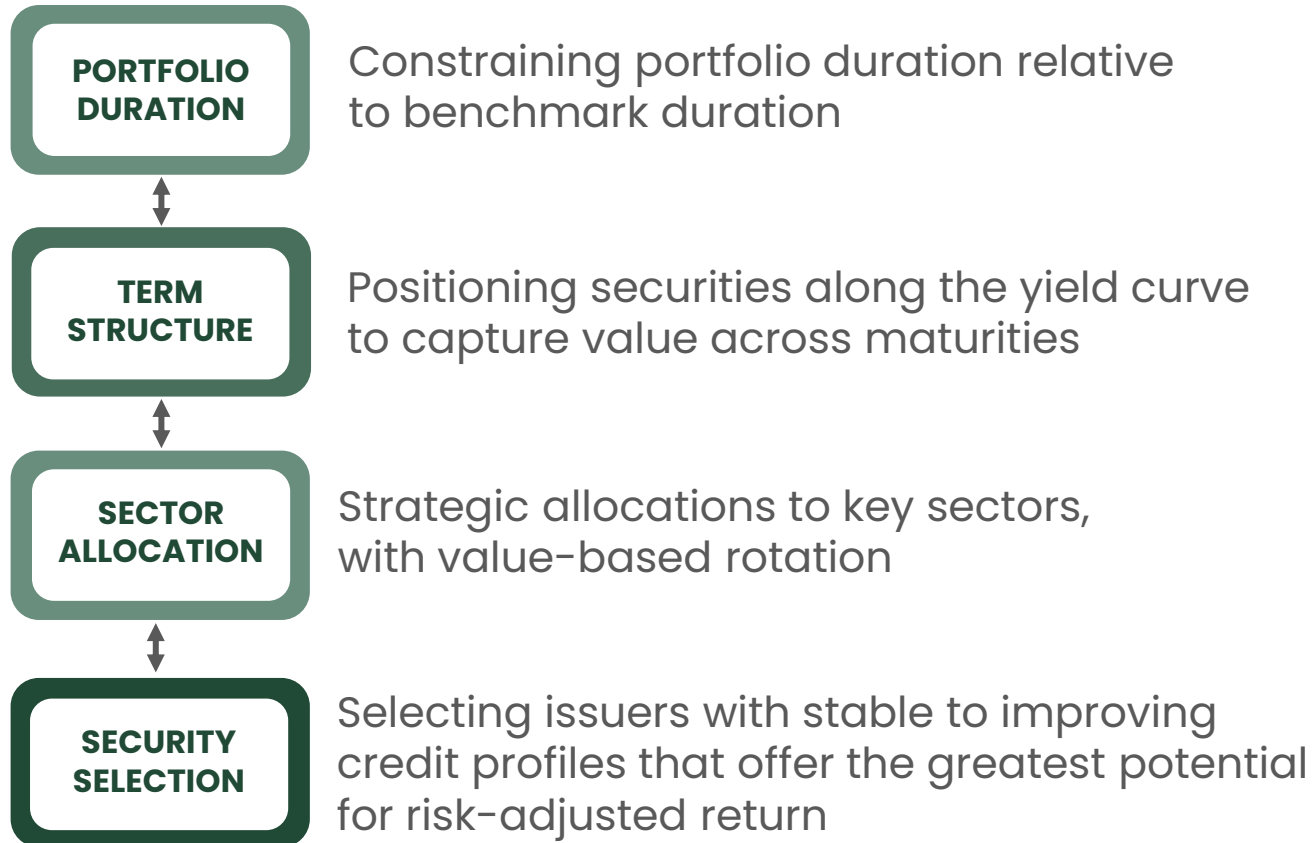
Review of Policy

Recommendations for Alignment with CA Govt. State Code

- *Senate Bill 595*: Extends max maturity of prime Commercial Paper to 397 days and extends SB 998 through 1/1/2031
- Local Government Investment Pools: Update section to include code section citations, requirements, and limitations
- Clarify limits of eligible investments to align with California government code.
- Add details to align with best practices from CDIAC, CMTA, and GFOA.

Adding Value and Controlling Risk

Four Key Elements of Our Approach



Chandler's Composites

Limited Maturity (1-3 Year)

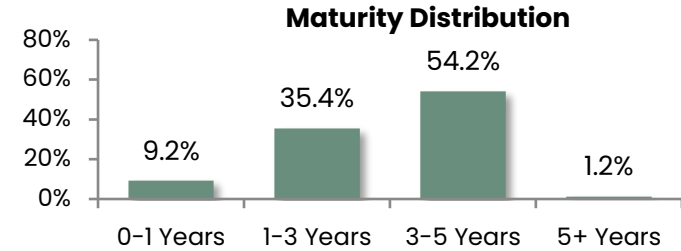
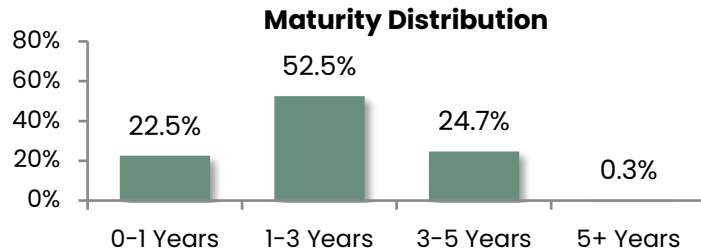
AUM \$11.3B, inception 10/31/1988

Average Final Maturity	2.10 years
Average Duration	1.83 years
Yield-to-Maturity	3.68%
Average Quality (S&P)	AA+
Average Coupon	3.74%

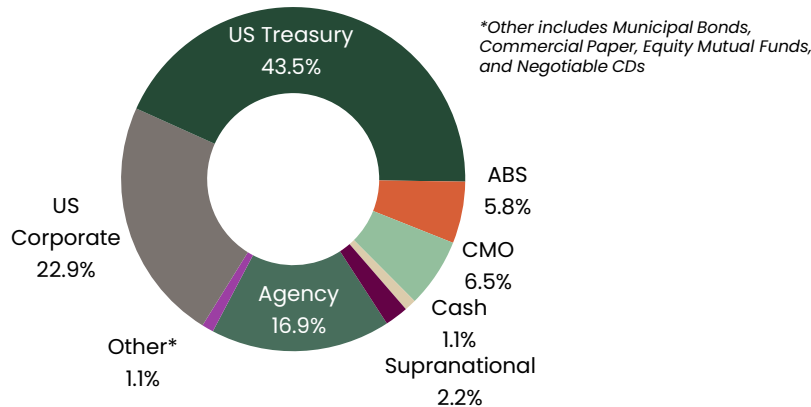
Short Term Bond (1-5 Year)

AUM \$16.6B, inception 09/30/1995

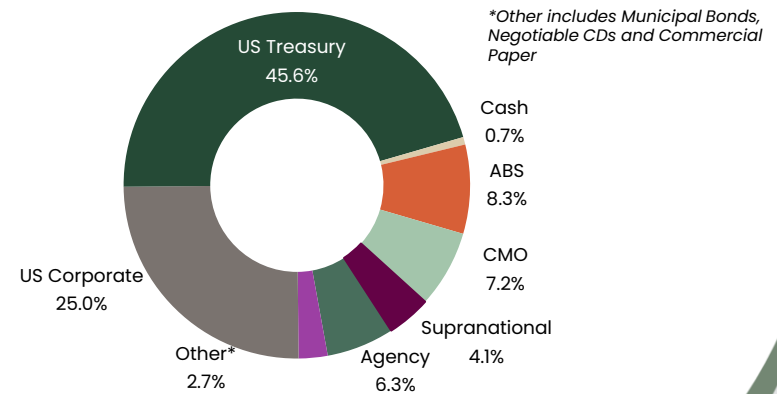
Average Final Maturity	2.98 years
Average Duration	2.54 years
Yield-to-Maturity	3.76%
Average Quality (S&P)	AA+
Average Coupon	3.75%



SECTOR ALLOCATION



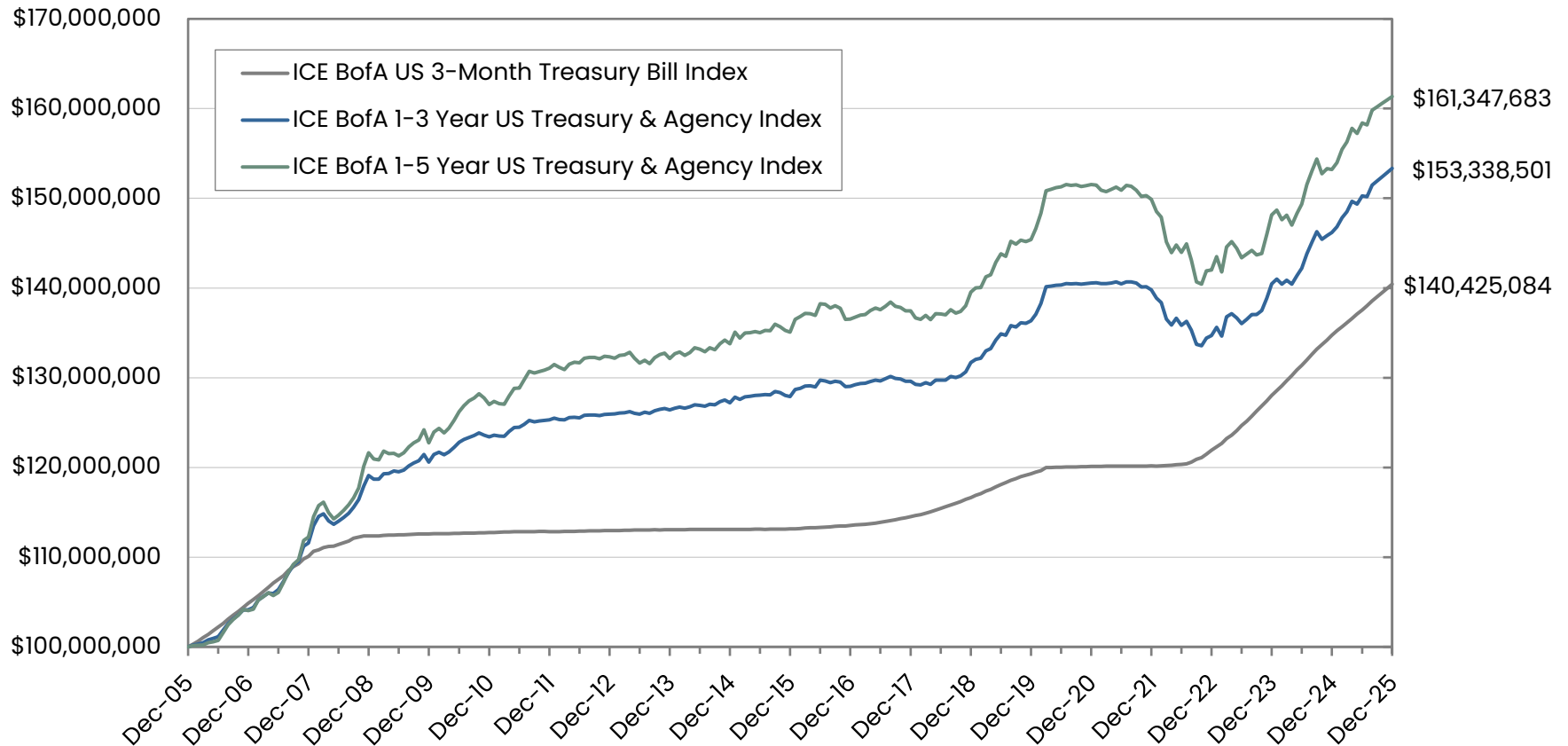
SECTOR ALLOCATION



Based on Chandler's Limited Maturity and Short Term Bond composite characteristics as of 12/31/2025. Credit quality equivalent of composite/average of S&P, Moody's and Fitch ratings; "A" category includes "A-1" rated money market securities. The composite characteristic information presented above is supplemental information pursuant to GIPS®. There is no guarantee that investment in any of these styles will result in characteristics similar to those that appear in this presentation due to changes in economic conditions and other market factors. Past characteristics are not indicative of future results.

Historical Index Performance

Hypothetical Example: Growth of \$100 Million Over 20 Years



Source: Bloomberg. Graph demonstrating the performance of commonly used benchmarks among our clients. Historical benchmark performance data for the 3 Month Treasury Bill Index, 1-3 Year Treasury Index, and 1-5 Year Treasury & Agency indices sourced from Bloomberg AIM. Index returns assume reinvestment of all distributions. Historical performance results for investment indexes do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. It is not possible to invest directly in an index. Past performance is not indicative of future performance. Please see important hypothetical disclosures at the end of this presentation, page 16.

Compliance with Investment Policy

STATEMENT OF COMPLIANCE



Sample Account | Account #000000 | As of December 31, 2025


Rules Name	Limit	Actual	Compliance Status	Notes
Min Rating (AAA by 2)	0.0	0.0	Compliant	
MORTGAGE-BACKED SECURITIES (NON-AGENCY)				
Max % (MV)	20.0	0.0	Compliant	
Max % Issuer (MV)	5.0	0.0	Compliant	
Max Maturity (Years)	5.0	0.0	Compliant	
Min Rating (AA- by 1)	0.0	0.0	Compliant	
MUNICIPAL SECURITIES (CA, LOCAL AGENCY)				
Max % (MV)	30.0	0.0	Compliant	
Max % Issuer (MV)	5.0	0.0	Compliant	
Max Maturity (Years)	5	0.0	Compliant	
Min Rating (A- by 1)	0.0	0.0	Compliant	
MUNICIPAL SECURITIES (CA, OTHER STATES)				
Max % (MV)	30.0	2.6	Compliant	
Max % Issuer (MV)	5.0	2.6	Compliant	
Max Maturity (Years)	5	1	Compliant	
Min Rating (A- by 1)	0.0	0.0	Compliant	
NEGOTIABLE CERTIFICATES OF DEPOSIT (NCD)				
Max % (MV)	30.0	0.0	Compliant	
Max % Issuer (MV)	5.0	0.0	Compliant	
Max Maturity (Years)	5	0.0	Compliant	
Min Rating (A-1 by 1 or A- by 1 if > FDIC Limit)	0.0	0.0	Compliant	
REPURCHASE AGREEMENTS				
Max Maturity (Years)	1.0	0.0	Compliant	
SRI PROHIBITED				
Prohibited Investments - Firearms	0.0	0.0	Compliant	
Prohibited Investments - Tobacco	0.0	0.0	Compliant	

SAMPLE

This sample report is being provided for illustrative purposes to demonstrate Chandler Asset Management's reporting capabilities. Elements of the Compliance Report are representative of investment guidelines promulgated by State Law or the entity's investment policy.

Best Execution for Transactions

The City is assured that through Chandler's best execution practices, it is receiving competitive, institutional pricing on transactions, as the Firm seeks a minimum of three quotes per trade.



CHANDLER
ASSET
MANAGEMENT

Trade Ticket

All trades are discretionary unless otherwise noted

BUY	ORDER ID	124514	ACCT MANAGER	████████
	TRADE DATE	03/18/2024	TRADER	████████
	SETTLE DATE	03/20/2024	Bkr/CParty	████████

ACCOUNT INFORMATION	
Account Name	████████████████████
Pam #	██
Bank/Custodian	████████████████████
Bank Acct	████████

TRADE INFORMATION				SETTLEMENT VALUES	
Security	████████████████████			Principal	\$2,501,225.00
Cusip	14913UAJ9	Coupon Rate	4.850000	Maturity Date	02/27/2029
Qty/Par	2,500,000.00	Yield (YTM)	4.838	Issue Date	02/27/2024
Price	100.049000	Disc Rate	0.000000	Pay Freq	Semi-Annually
Int. Pymt	\$0.00	First Pay Date	08/27/2024	Day Basis	30/360
Spread	49.90	Next Cpn Date	08/27/2024	Accrual Type	FIXED
Sec Type	CB	Ticker	CAT	Original Face	
				Commission	\$0.00
				Sec Fee	\$0.00
				Trade Fee	\$0.00
				Net Amt	\$2,508,971.53

RATINGS		SETTLEMENT INSTRUCTIONS	
S&P	A	Delivery Type	DTC
Moody	A2	Agent Name	████████
		Delivery Location	BIDL
		Agent DTC #	████
		Agent BIC Code	
		ABA #	████████

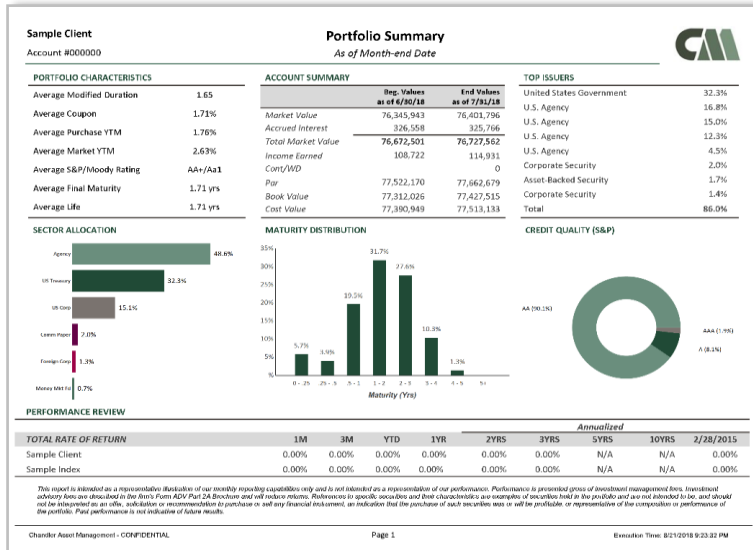
NOTES		COMPETITIVE PRICE			
		Dealer 1	Price 1	Dealer 2	Price 2
		CTSD	100.079	MS	100.079

- Process is documented for transparency
- Transactions are executed on a competitive basis
- We seek multiple price quotations on all purchases and sales
- Block trade execution and pricing saves you money

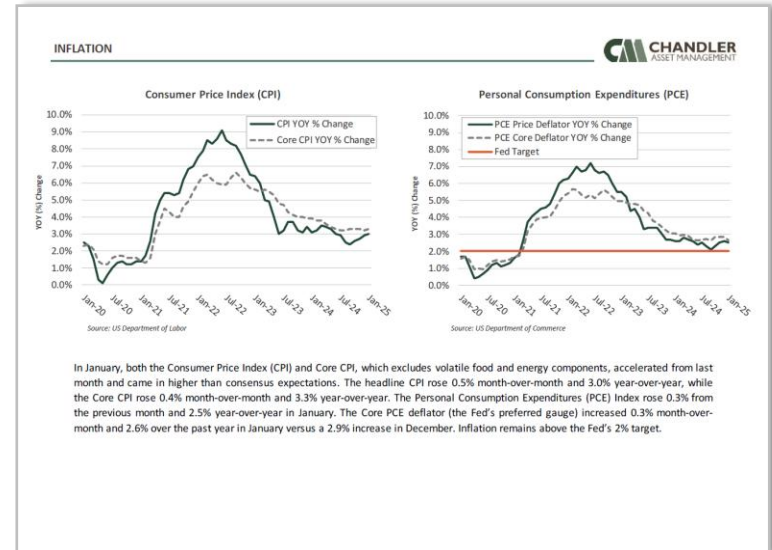
This sample report is being provided for illustrative purposes to demonstrate Chandler Asset Management's reporting capabilities. References to specific securities and their characteristics are examples of securities held in the portfolio and are not intended to be, and should not be interpreted as an offer, solicitation or recommendation to purchase or sell any financial instrument, an indication that the purchase of such securities was or will be profitable, or representative of the composition or performance of the portfolio. The information contained in this sample presentation was obtained from sources we believe to be reliable, but we do not guarantee its accuracy.

Robust Reporting

Monthly Reports



Quarterly Reports and Market Analysis



- Portfolio summary
- Compliance statement
- Reconciliation summary
- Holdings report
- Transactions ledger
- Income earned
- Cash flow

- Detailed portfolio performance reports
- Market analysis

Online Platform and Customizable Reports
Supported by CWAN, our clients also have access to customizable reporting 24/7.

Investment Program Governance



INVESTMENT ADVISER OVERSIGHT

Full time investment advisory services.

- SEC Registered Investment Adviser focused on the primary tenets of *safety, liquidity, and total return*
- Expertise in California Government Code
- Initial and annual review of the investment policy



RESOURCES

resources for portfolio management, compliance, settlement, and reporting.

- Proprietary cash flow models
- Horizon Analysis Model
- Credit analysis and security selection



RISK MANAGEMENT

Rigorous credit analysis and monitoring of securities issuers.

- Portfolios are diversified to appropriate sectors with issuer limitations
- Monitor market conditions and evaluate market risk
- Performance measurement against appropriate benchmarks



REPORTING

Presentations to Staff and Council.

- Monthly reports week following month end
- Quarterly reports for in-person discussion
- Customized and consolidated reports
- *Online Client Portal* to access trade tickets, documents, historical information



COMPLIANCE

Automated pre-trade, post-trade and end of day compliance checks.

- Daily review and monitoring by Chandler experts
- *Statement of Compliance* in monthly account statements



CLIENT SERVICE

Direct access to Investment and Client Service Professionals.

- Education and training on investment topics
- Webinars and CPE credits
- Transition and onboarding support

Disclosures

©2026 Chandler Asset Management, Inc., an SEC-Registered Investment Adviser.

This report is being provided for informational purposes only. No investment decision should be made based solely on the information provided herein. All investments involve risk, including loss of principal invested. The strategies referenced may not be suitable for all investors. The information contained herein is based on internal research derived from various sources and does not purport to be statements of all material facts relating to the strategies. While not guaranteed as to accuracy or completeness, some of the information has been obtained from sources we believe to be reliable. Opinions expressed herein are subject to change without notice. There can be no assurance that an account or specific investment product will be able to achieve its investment objective. No guarantee of investment performance is being provided and no inference to the contrary should be made.

Any forecasts, forward-looking statements and assumptions are inherently limited and should not be relied upon as an indicator of future results. Any opinions and views constitute judgments made by the author at the date of this presentation and may become outdated or superseded at any time without notice. Any statements concerning financial market trends are based on current market conditions, which will fluctuate.

Economic factors, market conditions and investment strategies will affect the performance of any portfolio and there are no assurances that it will match or outperform any particular benchmark. The data contained in this presentation is the property of those providers, which were obtained from sources believed to be reliable, but are subject to change at any time at the provider's discretion. Unless otherwise noted, Chandler is the source of data contained in this presentation.

Fixed Income investments are subject to interest, credit and market risk. Interest rate risk: the value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low rated bonds generally must pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market in general could decline due to economic conditions, especially during periods of rising interest rates.

References to specific securities are examples of securities held in a portfolio and are not intended to be, and should not be interpreted as an offer, solicitation, or recommendation to purchase or sell any financial instrument, an indication that the purchase of such securities was or will be profitable, or representative of the composition or performance of the portfolio. The information contained in this sample presentation was obtained from sources we believe to be reliable, but we do not guarantee its accuracy. Past performance is not indicative of future success.

Performance results are presented gross-of-advisory fees and represent the client's Total Return. The deduction of advisory fees lowers performance results. These results include the reinvestment of dividends and other earnings. Past performance may not be indicative of future results. Therefore, clients should not assume that future performance of any specific investment or investment strategy will be profitable or equal to past performance levels. All investment strategies have the potential for profit or loss. Economic factors, market conditions or changes in investment strategies, contributions or withdrawals may materially alter the performance and results of your portfolio. Index returns assume reinvestment of all distributions. Historical performance results for investment indexes generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. It is not possible to invest directly in an index.

ICE BofA 1-3 Year US Treasury Index

The ICE BofA 1-3 Year US Treasury Index tracks the performance of US dollar-denominated sovereign debt publicly issued by the US government in its domestic market. Qualifying securities must have at least one year remaining term to final maturity and less than three years remaining term to final maturity, a fixed coupon schedule, and a minimum amount outstanding of \$1 billion.

ICE BofA 1-5 Year US Treasury & Agency Index

The ICE BofA 1-5 Year US Treasury & Agency Index tracks the performance of US dollar denominated US Treasury and nonsubordinated US agency debt issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch).

The ICE BofA 1-10 Year US Treasury & Agency Index

The ICE BofA 1-10 Year US Treasury & Agency Index tracks the performance of US dollar denominated US Treasury and nonsubordinated US agency debt issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch). Qualifying securities must have at least one year remaining term to final maturity and less than ten years remaining term to final maturity, at least 18 months to maturity at time of issuance, a fixed coupon schedule, and a minimum amount outstanding of \$1 billion for sovereigns and \$250 million for agencies.

Index returns assume reinvestment of all distributions. Historical performance results for investment indexes generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. It is not possible to invest directly in an index.

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Where listed, certain performance shown is hypothetical and does not represent actual trading in a client's account. HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFIT OR LOSSES SIMILAR TO THOSE SHOWN. THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK AND DOES NOT TAKE INTO ACCOUNT THAT MATERIAL AND MARKET FACTORS MAY HAVE IMPACTED THE ADVISER'S DECISION-MAKING IF THE ADVISER WERE ACTUALLY MANAGING CLIENT'S MONEY. NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS, ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS. It should not be assumed that investors who invest in Chandler Asset Management's Portfolios will be profitable or achieve the hypothetical performance results reflected or any corresponding index presented. Actual performance of and holdings and investment implementation in Chandler Asset Management's client accounts can materially differ from that of the hypothetical models presented herein and performance can be higher or lower than the results shown. Investors may have experienced investment results during the corresponding time periods that were materially different from those portrayed. The opinions referenced are as of the date of publication and are subject to change. Chandler Asset Management has discretion in the timing of trade execution and selection of securities traded and utilized in any client account, which can and will materially differ from the hypothetical simulated performance based upon a variety of factors, including the adviser's discretion to not follow any trading signal generated and to determine the timing and implementation of a trade (which can include securities other than those listed).

GIPS® Compliant Verification Statement



Verification Report

Chandler Asset Management, Inc.

We have verified whether Chandler Asset Management, Inc. (the "Firm") has, for the periods from July 1, 1997 through December 31, 2024, established policies and procedures for complying with the Global Investment Performance Standards (GIPS®) related to composite and pooled fund maintenance and the calculation, presentation, and distribution of performance that are designed in compliance with the GIPS standards, as well as whether these policies and procedures have been implemented on a firm-wide basis. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

The Firm's management is responsible for its claim of compliance with the GIPS standards and the design and implementation of its policies and procedures. Our responsibilities are to be independent from the Firm and to express an opinion based on our verification. We conducted this verification in accordance with the required verification procedures of the GIPS standards, which includes testing performance on a sample basis. We also conducted such other procedures as we considered necessary in the circumstances.

In our opinion, for the periods from July 1, 1997 through December 31, 2024, the Firm's policies and procedures for complying with the GIPS standards related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been, in all material respects:

- Designed in compliance with the GIPS standards, and
- Implemented on a firm-wide basis.

This report does not relate to or provide assurance on any specific performance report of the Firm or on the operating effectiveness of the Firm's controls or policies and procedures for complying with the GIPS standards.

ACA Group

ACA Group, Performance Services Division

December 9, 2025

GIPS® Composite Report: Limited Maturity

Annual Rates of Return 2015 through 2024

Year End	Returns			3 Year Annualized Standard Deviation		Dispersion	Number of Portfolios	Assets		
	Total Gross	Total Net	Total Index	Composite Index	Asset Wtd Std. Dev.	Composite (MM)		% of Firm Assets	Firm (MM)	
2015	0.74%	0.49%	0.54%	0.63%	0.56%	0.07%	27	1,328	11.31%	11,747
2016	1.11%	0.86%	0.88%	0.74%	0.76%	0.06%	31	1,081	8.39%	12,882
2017	0.85%	0.60%	0.43%	0.71%	0.74%	0.08%	32	1,178	8.60%	13,698
2018	1.69%	1.44%	1.59%	0.77%	0.85%	0.03%	31	1,905	11.51%	16,551
2019	3.87%	3.61%	3.55%	0.84%	0.94%	0.08%	39	2,653	13.57%	19,552
2020	3.25%	3.00%	3.12%	0.92%	1.21%	0.12%	39	2,713	12.21%	22,227
2021	-0.48%	-0.73%	-0.55%	0.96%	1.19%	0.07%	44	3,189	12.37%	25,785
2022	-3.13%	-3.37%	-3.65%	1.52%	1.71%	0.17%	54	3,655	12.76%	28,641
2023	4.79%	4.53%	4.26%	1.92%	2.04%	0.08%	59	4,576	12.78%	35,804
2024	4.33%	4.07%	4.08%	2.20%	2.33%	0.12%	63	5,077	12.04%	41,585

Chandler Asset Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards.

Chandler Asset Management has been independently verified by ACA Performance Services for the period of July 1, 1997 through December 31, 2024. The verification report is available upon request. A Firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

- Chandler Asset Management is an independent investment adviser registered as such with the Securities and Exchange Commission under the Investment Adviser's Act of 1940. Registration with the SEC does not imply a certain level of skill or training. Since 1988, Chandler Asset Management has provided fixed income investment management services to the public sector, as well as to foundations, endowments, individuals and corporations. A complete list and description of all of the firm's composites is available upon request.
- The Limited Maturity Composite is a composite of individually managed accounts with an average modified duration approximately equal to the modified duration of the ICE BofA 1-3 Year US Treasury Index and a final stated maturity of individual securities of five years. The minimum account size required to be included in this composite is \$2 million. This composite was created September 1988 and inception October 1988. The name of this composite was changed from Short-Term Fixed Income effective September 30, 2009.
- The ICE BofA 1-3 Year US Treasury Index tracks the performance of US dollar-denominated sovereign debt publicly issued by the US government in its domestic market. Qualifying securities must have at least one year remaining term to final maturity and less than three years remaining term to final maturity, a fixed coupon schedule, and a minimum amount outstanding of \$1 billion. Qualifying securities must have at least 18 months to final maturity at the time of issuance. Indexes are referred to for comparative purposes only and are not intended to parallel the risk or investment style of the portfolios in the Composite. Indexes do not utilize leverage. Index calculations do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index. Index data contained herein (and all trademarks related thereto) are owned by the indicated index provider, and may not be redistributed. The information herein has not been approved by the index provider.
- Valuations are computed and performance reported in U.S. Dollars.
- Performance is calculated using a time-weighted total rate of return, which links performance monthly, and is reported gross of investment management fees and custodial fees, but after all trading expenses. Results reflect the reinvestment of income, dividends and other earnings, and include realized and unrealized gains and losses and interest accrued through the last day of each month. Results do not reflect the potential impact of taxes. Past performance is not indicative of future results. Fees charged by Chandler Asset Management will reduce performance.
- Net-of-fees performance returns are calculated by reducing the monthly gross performance by one-twelfth (1/12) of the actual maximum applicable fee of 0.25%, which is representative of our current fee schedule for this composite. These monthly returns are then geometrically linked to produce annual returns which are presented before custodial fees but after management fees and all trading expenses. Fees are negotiable and additional information regarding Chandler's fees is included in our Part 2A of Form ADV.
- Dispersion is calculated using the asset weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year. For years when less than six portfolios were included in the composite for the full year, no dispersion measure is presented. The three-year annualized standard deviation measures the variability of the composite gross returns and the benchmark returns over the preceding 36-month period.
- Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request.
- GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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GIPS® Composite Report: Short Term Bond

Annual Rates of Return 2015 through 2024

Year End	Returns			3 Year Annualized Standard Deviation		Dispersion		Assets		
	Total Gross	Total Net	Index	Composite	Index	Asset Wtd Std. Dev.	Number of Portfolios	Composite (MM)	% of Firm Assets	Firm (MM)
2015	1.15%	0.90%	0.96%	1.11%	1.18%	0.07%	44	3,403	28.97%	11,747
2016	1.30%	1.04%	1.08%	1.24%	1.39%	0.05%	49	4,131	32.07%	12,882
2017	1.08%	0.83%	0.67%	1.19%	1.34%	0.11%	48	3,783	27.62%	13,698
2018	1.53%	1.27%	1.55%	1.22%	1.40%	0.05%	48	3,485	21.06%	16,551
2019	4.55%	4.29%	4.19%	1.22%	1.39%	0.19%	55	5,199	26.59%	19,552
2020	4.43%	4.17%	4.22%	1.32%	1.70%	0.11%	59	6,234	28.05%	22,227
2021	-0.93%	-1.17%	-1.09%	1.33%	1.65%	0.04%	72	7,294	28.29%	25,785
2022	-4.82%	-5.06%	-5.25%	2.22%	2.42%	0.15%	75	8,221	28.70%	28,641
2023	4.83%	4.57%	4.32%	2.72%	2.86%	0.10%	81	9,207	25.72%	35,804
2024	3.86%	3.61%	3.42%	3.10%	3.25%	0.10%	92	10,538	25.34%	41,585

Chandler Asset Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards.

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- The Short Term Bond Composite is a composite of individually managed accounts with an average modified duration approximately equal to the modified duration of the ICE BofA 1-5 Year US Treasury & Agency Index and a maximum final stated maturity of individual securities of five years. The minimum account size required to be included in this composite is \$2 million. This composite was created in September 1995 and incepted September 1995. The name of this composite was changed from 1-5 Year Government Fixed Income effective September 30, 2009.
- The ICE BofA 1-5 Year US Treasury & Agency Index tracks the performance of US dollar denominated US Treasury and nonsubordinated US agency debt issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch). Qualifying securities must have at least one year remaining term to final maturity and less than five years remaining term to final maturity, at least 18 months to maturity at time of issuance, a fixed coupon schedule, and a minimum amount outstanding of \$1 billion for sovereigns and \$250 million for agencies. Index calculations do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index. Index data contained herein (and all trademarks related thereto) are owned by the indicated index provider, and may not be redistributed. The information herein has not been approved by the index provider.
- Valuations are computed and performance reported in U.S. Dollars.
- Performance is calculated using a time-weighted total rate of return, which links performance monthly, and is reported gross of investment management fees and custodial fees, but after all trading expenses. Results reflect the reinvestment of income, dividends and other earnings, and include realized and unrealized gains and losses and interest accrued through the last day of each month. Results do not reflect the potential impact of taxes. Past performance is not indicative of future results. Fees charged by Chandler Asset Management will reduce performance.
- Net-of-fees performance returns are calculated by reducing the monthly gross performance by one-twelfth (1/12) of the actual maximum applicable fee of 0.25%, which is reflective of our current fee schedule for this composite. These monthly returns are then geometrically linked to produce annual returns which are presented before custodial fees but after management fees and all trading expenses. Fees are negotiable and additional information regarding Chandler's fees is included in our Part 2A of Form ADV.
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- Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request.
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CITY OF FULLERTON



STATEMENT OF INVESTMENT POLICY

~~November 2024~~ Revised: April 2026

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STATEMENT OF INVESTMENT POLICY

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Attachment A. Glossary of Terms

STATEMENT OF INVESTMENT POLICY

SECTION 1. PURPOSE

This Investment Policy is intended to provide guidelines for the prudent investment of the City of Fullerton and the Fullerton Successor Agency's temporarily idle cash. Throughout this policy the term City or City of Fullerton shall refer to both the City of Fullerton and the Fullerton Successor Agency, unless otherwise indicated. Also outlined are the policies for maximizing the effectiveness of the City's cash management system. Bond proceeds shall be invested in accordance with the requirements and restrictions outlined in the bond documents. Bond proceeds and other funds or assets that are not part of the general pool shall not be subject to this Investment Policy. This Policy conforms to all existing requirements of State law governing the investment of public funds.

SECTION 2. POLICY

The investment practices and policies of the City of Fullerton are based upon state law, Fullerton Municipal Code and prudent money management of the City's temporary idle cash. The primary goals of these practices are:

- A. To assure compliance with all federal, state, and local laws governing the investment of public funds under the control of the City Treasurer.
- B. To protect the principal monies entrusted to this office.
- C. To achieve a reasonable rate of return within the parameters of prudent risk management while minimizing the potential for capital losses arising from market changes or issuer default.

SECTION 3. SCOPE

This Investment Policy shall apply to all funds that are under the City Treasurer's control including but not limited to the governmental, fiduciary, enterprise, and internal service, and trust and successor agency funds. These funds are accounted for and presented in the City's audited financial statements within the Annual Comprehensive Financial Report or ACFR. The City's 115 Pension and OPEB Trust funds and Deferred Compensation Plan shall be excluded from the scope of this policy and are subject to other governing state laws.

Except for cash in certain restricted and special funds, the City 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 will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

SECTION 4. OBJECTIVE

The Cash Management System of the City is designed to monitor and forecast expenditures and revenues, through a Cashflow model or other projection modeling; thus enabling the investment of funds to the fullest extent possible. It shall be the policy of the City to obtain a market rate of interest without assuming undue risk to principal, in accordance with State law (Government Code Section 53600.3 and 53600.5).

The primary objectives of the City Treasurer, in priority order, shall be:

- A. **Safety** - To avoid potential loss of principal, interest, or combination thereof, safety shall be the highest priority for City investments. It shall be the responsibility of the City Treasurer to see that this Investment Policy is followed to ensure the safety of the City's portfolio. The City Treasurer shall certify in a quarterly report that all funds in the City's portfolio are being invested in accordance with this Investment Policy.
- ~~B. **Liquidity** - Shall be the second priority for City investments to assure provision of cash for City operations as needed, with a negligible chance of any loss. Liquidity remains an essential investment consideration in view of the possible need for unexpected or emergency City expenditures.~~
- ~~B.~~
- ~~C. **Yield or Return on Investment** — The investment portfolio will be designed with the objective of attaining a market rate of return, or yield, throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs. Only after safety and liquidity needs for investments are met will the yield be considered. Sometimes yield is described as the rate of return. The objective of Fullerton's portfolio shall be to attain a market-average rate of return through economic cycles. The market-average rate of return is defined as the average return on a six-month U.S. Treasury Bill.~~
- ~~C.~~
- D. **Diversification** – The City's investment portfolio will be diversified to avoid concentrating investments in specific security types or in individual financial institutions.

SECTION 5. PRUDENCE

Investments made by the City Treasurer in the name of the City of Fullerton shall be made with judgment and care 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 the City Treasurer shall be the *Prudent Investor Standard*, as defined in Government Code Section 53600.3 and shall be applied in managing the overall investment portfolio.

“...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 Agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

The City Treasurer, acting in accordance with this Investment Policy and exercising due diligence, shall have a duty to report in a timely manner to the City Manager and City Council in the event of adverse developments affecting the City's investments.

SECTION 6. INVESTMENT PROCEDURES

The City Treasurer will prepare written investment procedures consistent with this policy. The procedures will include: safekeeping, wire transfer instructions and agreements, permitted and prohibited instrument features, banking service contracts, authorized dealers/brokers, collateral/depository agreements, internal controls and delegation of authority to persons responsible for investment transactions.

SECTION 7. ETHICS AND CONFLICTS OF INTEREST

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. Thus, employees and officials involved in the investment process shall refrain from personal business activity that could create a conflict of interest or the appearance of a conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Employees and investment officials shall disclose to the Designated Official any material interests in financial institutions with which they conduct business, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the City.~~In addition to state and local statutes relating to conflicts of interest, all persons involved in the investment process shall 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.~~

Employees and investment officers are required to file annual disclosure statements as required for "public officials who manage public investments" (as defined and required by the Political Reform Act and related regulations, being Government Code Sections 81000 and the Fair Political Practices Commission [FPPC]).

SECTION 8. INTERNAL CONTROLS

The City Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Periodically, as deemed appropriate by the City and/or the City Council, an independent analysis by an external auditor shall be conducted to review internal controls, account activity and compliance with policies and procedures.

SECTION 98. AUTHORIZED INVESTMENTS

~~A summary and description of authorized investment instruments is listed below. The City's investments are governed by California Government Code, Sections 53600 et seq. Within the investments permitted by the State Code, the City seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this policy and State Code, the more restrictive parameters will take precedence. Percentage holding limits and minimum credit requirements listed in this section apply at the time the security is purchased.~~

~~Any investment currently held at the time the policy is adopted which does not meet the new policy guidelines can be held until maturity and shall be exempt from the current policy. At the time of the investment's maturity or liquidation, such funds shall be reinvested only as provided in the current policy.~~

~~An appropriate risk level shall be maintained by primarily purchasing securities that are of high quality, liquid, and marketable. The portfolio shall be diversified by security type and issuer to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers.~~

Security Type	Minimum Rating Requirement	Maturity Limits	Maximum Allocation Limit	Maximum Issuer Limit
A. United States Treasury Securities	None	5 years	100%	100%
B. U.S. Government Agencies	None	5 Years	100%	40%
B. U.S. Federal Instrumentalities	None	5 Years	100%	40%
C. Bankers Acceptances	Prime	180 Days	40%	5%
D. Commercial Paper	Prime	270 Days	25%*	5%
E. Asset Backed Commercial Paper	Prime	270 Days	25%*	5%
F. Negotiable Certificates of Deposit	"A"	5 Years	30%	5%
F. Collateralized Certificates of Deposit	None	5 Years	25%	10%
G. Repurchase Agreements	None	1 Year	25%	20%
H. LAIF	None	None	Lesser of 50M or 60%	N/A
I. Orange County Investment Pool	None	None	0%	0%
J. Medium Term Notes	"A"	5 Years	30%	5%
K. Asset Backed Securities	"AA"	5 Years	20%	5%
L. Municipal Bonds	"A"	5 Years	20%	5%
M Supranational Debt	"AA"	5 Years	30%	5%
N. Money Market Funds	AAA_m	N/A	20%	10%
O. Joint Power Authority Pools	AAA	N/A	40%	40%

~~* The 25% limitation applies in the aggregate to both commercial paper and asset backed commercial paper such that no more than 25% of the City's total portfolio may be invested in any combination of securities authorized by Section 8.D and 8.E of this Policy.~~

~~The City's investments are governed by the California Government Code.~~ Investments may be made in the following types of securities and permitted percentages within an investment type:

- A. United States Treasury Securities:** Highly liquid and guaranteed as to principal and interest by the United States government with a final maturity not exceeding five years from the date of trade settlement. There is no percentage limit for this category.
- B. Federal Agency or United States Government-Sponsored Enterprise (GSE) Obligations:** Obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or US government-sponsored enterprises with a final maturity not exceeding five years from the date of trade

settlement. There is no limit to the amount of the City's portfolio that may be invested in Federal Agency or GSE securities, except that:

1. The aggregate investment in federal agency mortgage-backed securities shall not exceed 20% of the City's total portfolio.

2. ~~Furthermore,~~ The aggregate investment in any one federal agency or GSE issuer shall not exceed ~~34~~0% of the City's total portfolio.

~~B-3.~~ No more than 20% of the total portfolio may be invested in callable agency securities.

- C. **Bankers Acceptances:** Negotiable time drafts which are drawn on foreign or domestic banks to finance the export, import, shipment, and storage of goods. The drafts are sold at a discount and redeemed by the accepting bank at maturity for full face value. The maximum maturity does not exceed range from 1 to 180 days. Bankers Acceptances can only be purchased if the issuing bank is rated P-1 (Moody's) or "A-1" or its equivalent or better by at least one NRSRO. (Standard & Poor's). Purchases may not exceed forty percent (40%) of the City of Fullerton and Fullerton Successor Agency's combined of the total portfolio and no more than five percent (5%) of the total portfolio may be invested in any single issuer.

portfolio, and no more than five percent (5%) of the combined portfolio may be invested in the Bankers' Acceptances of any one commercial bank.

D. Commercial Paper: Issued by corporations and financial institutions.

1. Securities issued by corporations:

- A corporation organized and operating in the United States with assets more than \$500 million.
- The securities are rated "A-1" or its equivalent or better by at least one NRSRO.
- 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.

2. Securities issued by other entities:

- The issuer is organized within the United States as a special purpose corporation, trust, or limited liability company.
- The securities must have program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.
- The securities are rated "A-1" or its equivalent or better by at least one NRSRO.
- No more than 25% of the total portfolio may be invested in Commercial Paper. Under a provision sunseting on January 1, 2031, no more than 40% of the total portfolio may be invested in Commercial Paper if the Agency's investment assets under management are greater than \$100,000,000.
- No more than 5% of the total portfolio may be invested in any single issuer.
- The maximum maturity does not exceed 397 days.

~~D. Commercial paper must be rated P-1 by Moody's Investors Service or A-1 by Standard and Poor's. Purchases of this category shall not exceed 270 days to maturity or twenty five percent (25%) of the City of Fullerton and Fullerton Successor Agency's combined portfolio and no more than five percent (5%) of the combined portfolio may be invested in the outstanding commercial paper of any single issuer. The diversification requirements of this section shall be considered in combination with amounts held in Section 8.E (Asset-Backed Commercial Paper) of this Policy.~~

~~E. **Asset-Backed Commercial Paper:** Issued by entities organized within the United States as a special purpose corporation, trust, or limited liability company and of "prime" credit quality. The entity that issues the asset-backed commercial paper must meet all of the following conditions: (a) is rated "A-1" (or the equivalent) or higher by at least one nationally recognized statistical rating organization; and (b) has program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond. Purchases of this category shall not exceed 270 days to maturity or twenty five percent (25%) of the City of Fullerton and Fullerton Successor Agency's combined portfolio and no more than five percent (5%) of the combined portfolio may be invested in the outstanding asset-backed commercial paper of any single issuer. The diversification requirements of this section shall be considered in combination with amounts held in~~

~~Section 8.D (Commercial Paper) of this Policy.~~

~~F.E.~~ **Certificates of Deposit:**

1. Negotiable certificates of deposit (NCD's) are money market instruments issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. The maturity of NCD's shall not exceed five years, and purchases of NCD's shall not exceed thirty percent (30%) of the portfolio. Securities in this category exceeding federal deposit insurance limits shall be issued by institutions with a long-term debt rating category of at least "A" or its equivalent or better by at least one NRSRO, nationally recognized rating organization, as designated by the Security and Exchange Commission and shall be evaluated in terms of the credit worthiness of the issuer.
- ~~2. Certificates of Deposit (CD's) are unsecured direct obligations of a U.S. bank or a savings and loan association. Federally Insured Time Deposits (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions, provided that the amount per institution is limited to the maximum covered under federal insurance. No more than 20% of the total portfolio will be invested in a combination of federally insured and collateralized time deposits. The maximum maturity does not exceed five (5) years.~~
- ~~3. 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 no more than 20% of the total portfolio will be invested in a combination of federally insured and collateralized time deposits. The maximum maturity does not exceed five (5) years.~~
- ~~2. CD's are secured by collateral such as U.S. government securities or mortgages and allow selection of the exact amount and date of maturity, as well as the exact depository. Federal Deposit Insurance Corporation (FDIC) coverage is provided for government deposits, but limited to the first \$250,000 on deposit on behalf of a given entity at a single financial institution. However, California law requires that deposits of public funds shall be collateralized if not insured. Therefore, all City deposits in excess of FDIC insurance shall be collateralized. Purchases of this category shall not exceed five years and shall not exceed twenty five percent (25%) of the portfolio nor shall the City deposit more than 10% of its total portfolio in the collateralized certificates of deposit in any one bank.~~
- ~~3. Notwithstanding Section 53601 or any other provision of California code, The City has the authority under law to invest funds, at its discretion, and may invest a~~

~~portion of its surplus funds in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit, provided that the purchases of certificates of deposit pursuant to this section, Section 53635.8, and subdivision (i) of Section 53601 do not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose.~~

F. Repurchase Agreements (Repo's): A Repurchase Agreement consists of two simultaneous transactions. One is the purchase of securities by an investor from a bank, the other is the commitment by the bank to repurchase the securities at the same price at a mutually agreed upon future date. The investor receives an agreed upon rate of interest, generally at money market rates. Repo's shall be collateralized and written against U.S. Treasury, federal agency or government sponsored enterprises permitted by this statement of investment policy. The purchased securities (the "collateral") shall have a minimum market value of 102% of the dollar value of the funds invested. Purchases in this category shall not have a final termination date exceeding (360) from the date of trade settlement. No more than twenty five percent (25%) of the City's portfolio shall be invested in repurchase agreements.

G. Local Government Investment Pools (LGIP)

1. State of California Local Agency Investment Fund (LAIF), created by California Government Code Section 16429.1, provided that:

- The Agency may invest up to the maximum amount permitted by LAIF.
- LAIF's investments in instruments prohibited by or not specified in the Agency's policy do not exclude the investment in LAIF itself from the Agency's list of allowable investments, provided LAIF's reports allow the Designated Official to adequately judge the risk inherent in LAIF's portfolio.

2. Shares of Beneficial Interest Issued by a Joint Powers Authority (JPA), provided that:

- The JPA is organized pursuant to California Government Code Section 6509.7 and invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive.
- Each share shall represent an equal proportional interest in the underlying pool of securities owned by the JPA.
- The JPA has retained 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 (q).

3. Other Local Government Investment Pools (LGIP)

- Other LGIPs permitted by the agency (such as the Orange County Pool as defined by California Government Code Section 27000.3).
- No more than 20% of the total portfolio may be invested in LGIPs other than LAIF and JPAs.

G. However, prior to such investment, that option shall be re-evaluated by the

Treasurer and Investment Advisory Committee (see Section 15), and returned to Council for approval.

~~H. **State of California Local Agency Investment Fund (LAIF):** Provides high liquidity allowing deposits to be credited to the City's checking account within twenty four (24) hours. State Pool funds are operated directly by the Office of the State Treasurer, who commingles state and local funds. No more than sixty percent (60%), or \$75 million, whichever is less, of each of the City's and Successor Agency's monies may be invested with the State of California Local Agency Investment Fund.~~

~~I. **Orange County Investment Pool (OCIP):** The OCIP may be considered as a future investment option once the Pool is restructured and the Orange County Treasurer offers cities the opportunity to participate again. However, prior to such investment, that option shall be re-evaluated by the Treasurer and Investment Advisory Committee (see Section 15), and returned to Council for approval.~~

~~J.H. **Medium-Term Corporate Notes:** 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. Such securities must be rated in a rating category of "A" or higher by a nationally recognized rating service at the time of purchase. In the event the corporation falls below an "A" credit rating, an evaluation shall be conducted to determine its credit risk. The decision to sell the investment or hold till maturity will be assessed depending upon its credit risk. The maturity of medium-term corporate notes shall not exceed five years, and purchases shall not exceed thirty percent (30%) of the portfolio. No more than five percent (5%) of the combined portfolio may be invested in the outstanding debt of any single corporate issuer.~~

~~K. **Asset Backed Securities:** A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities not issued or guaranteed by an agency or issuer identified in subdivision 53601(b) or 53601(f), the following limitations apply: eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO, these securities shall have a maximum remaining maturity of five years or less, and the purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section. No more than five percent (5%) of the total portfolio may be invested in any single asset backed issuer.~~

~~than five percent (5%) of the combined portfolio may be invested in any single asset backed issuer.~~

~~L.I.~~ **Municipal Bonds:** issued by the State of California and any local agency within the State, including bonds payable solely out of 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 United States, in addition to California. Such securities must be rated in a rating category of “A” or higher by a nationally recognized rating service at the time of purchase. In the event the municipality falls below an “A” credit rating, an evaluation shall be conducted to determine its credit risk. The decision to sell the investment or hold till maturity will be assessed depending upon its credit risk. The maturity of municipal bonds shall not exceed five years, and purchases shall not exceed twenty percent (~~320%~~) of the portfolio. No more than five percent (5%) of the combined portfolio may be invested in the outstanding commercial paper of any single issuer.

~~M.J.~~ **Supranational Debt:** the debt of an international or multi-lateral financial agency used to finance economic and infrastructure development, environmental protection, poverty reduction and renewable energy around the world. The City may invest in U.S. 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. Obligations eligible for investment under this subdivision shall be rated “AA” or its equivalent or better by a NRSRO and may not exceed thirty (30%) of the City’s investment portfolio. No more than five percent (~~105%~~) of the ~~total combined~~ portfolio may be invested in the outstanding debt of any single supranational issuer. The maximum maturity may not exceed five (5) years.

~~N.K.~~ **Money Market Funds.** Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. To be eligible for investment pursuant to this subdivision these companies shall either:

- (1) Attain the highest ranking letter or numerical rating provided by not less than two (~~2~~) ~~of the three largest~~ NRSRO’s; or
- (2) Have an investment advisor registered or exempt from registration with the SEC with not less than five years’ of experience managing money market mutual funds investing in the securities and obligations authorized by California Government Code, Section 53601 and with assets under management in excess of \$500 million1 billion.

Furthermore, no more than 10% of the City’s total portfolio may be invested in any one money market fund.

~~O.~~ **Joint Power Authority Pools.** ~~Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive of California Code 53601. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:~~

- ~~(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.~~

~~(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive of California Code 53601.~~

~~(3) (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000)~~

~~The purchase price of shares shall not exceed 40% of the City's total portfolio and shall not include any commission that the companies may charge.~~

SECTION 109. PROHIBITED INVESTMENT VEHICLES AND PRACTICES

It shall be the policy of the City to not invest any funds in inverse floaters, range notes, or mortgage-derived interest only strips, or any security that could result in zero interest accrual if held to maturity, and other similar derivative products. No investment prohibited by California Government Section 53601.6 shall be permitted herein.

Notwithstanding the prohibition noted above, the City may invest in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. A local agency may hold these instruments until their maturity dates.

It shall be the policy of the City of Fullerton to not invest directly in Reverse Repurchase Agreements. Further, the City shall not be permitted to invest in any pool which has more than ten percent (10%) of its total portfolio in Reverse Repurchase Agreements.

Trading securities for the sole purpose of speculating on the future direction of interest rates, selling securities on margin, and the purchase of foreign currency denominated securities is prohibited.

The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is prohibited.

~~In the event of a ratings downgrade of a security in the City's portfolio by any of the nationally recognized statistical rating organizations (NRSRO) to a rating category below the minimum required for purchase, the City Treasurer will document such downgrade in writing. The City Treasurer will also communicate to the Director of Administrative Services a recommended course of action for said security.~~

However, callable securities, which otherwise meet the quality, maturity, and percent limitations assigned to their respective security category, are considered to be an acceptable investment.

SECTION 110. DELIVERY, SAFEKEEPING AND CUSTODY

All security transactions shall be conducted on a delivery-versus-payment (DVP) basis. Securities shall be held in third-party safekeeping of the City's bank or other designated third-party trust, in the City's name and evidenced by purchase confirmation and safekeeping receipts. 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) money market mutual funds, since these securities are not deliverable.

SECTION 124. MITIGATING RISK AND DIVERSIFICATION

~~The portfolio shall consist of a mix of securities purchased through various issuers, with varying maturities. The primary purpose for diversifying a portfolio is to reduce risk in terms of maturity, instrument types and issuer, while attaining an average market rate of return.~~

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

- The diversification requirements included in the “Authorized Investments” section of this policy are designed to mitigate credit risk in the portfolio.
- No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.
- The Agency may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or the Agency’s risk preferences.
- If a security owned by the Agency is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps will be taken:
- Any actions taken related to the downgrade by the investment manager will be communicated to the Designated Official in a timely manner.
- If a decision is made to retain the security, the credit situation will be monitored and reported to the Governing Body.

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 City 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 City 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 City 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 City, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The City will maintain a minimum of six months of budgeted operating expenditures in short-term investments to provide sufficient liquidity for expected disbursements.
- The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.
- The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the City based on the City’s investment objectives, constraints and risk tolerances.

SECTION 132. AUTHORIZED FINANCIAL BROKERS AND INSTITUTIONS

~~The City Treasurer shall maintain a listing of financial institutions and broker/dealers authorized to provide investment and depository services and who maintain an office in the State of California.— All financial institutions and brokers/dealers who desire to become bidders for investment transactions must supply the City with the following: audited financial statements, proof of National Association of Security Dealers’ certification, completed authorization to trade~~

~~agreement, proof of California registration, and shall acknowledge by written receipt of having read this Investment Policy. The City shall annually send a copy of the current investment policy to all financial institutions and broker/dealers approved to do business with the City.~~

~~Should the City contract with a third party investment management firm to manage all or a portion of the City's investment portfolio, the investment management firm is herein authorized to utilize its own list of approved broker dealers and shall provide such list to the City annually or upon the City's request.~~

~~The City Treasurer shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions which are approved for investment purposes that are selected through a process of due diligence as determined by the City. Due inquiry shall determine whether such authorized broker/dealers, and the individuals covering the City are reputable and trustworthy, knowledgeable and experienced in Public Agency investing and able to meet all of their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).~~

~~In accordance with Section 53601.5, institutions eligible to transact investment business with the Agency include:~~

- ~~• Institutions licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, with proof of FINRA certification.~~
- ~~• Institutions that are members of a federally regulated securities exchange.~~
- ~~• Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.~~
- ~~• Nationally or state-chartered banks.~~
- ~~• Savings association or federal association (as defined in Section 5102 of the Financial Code).~~
- ~~• The Federal Reserve Bank.~~
- ~~• Direct issuers of securities eligible for purchase.~~

~~Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the City, except where the City utilizes an external investment adviser in which case the City may rely on the adviser for selection.~~

~~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 City Treasurer with audited financials and a statement certifying that the institution has reviewed the California Government Code, Section 53600 et seq. and the City's investment policy. The City Treasurer will conduct an annual review of the financial condition and registrations of such qualified bidders.~~

~~To the extent practicable, the City Treasurer shall endeavor to complete investment transactions using a competitive bid process whenever possible and select a financial institution as its investment accounts custodian. The City's Treasurer will determine which financial institutions are authorized to provide investment services to the Agency. It shall be the City's policy to purchase securities only from authorized institutions and firms.~~

~~Selection of broker/dealers used by an external investment adviser retained by the City will be at the function and the sole discretion of the investment adviser under its capacity as the City's Investment Manager. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable~~

or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

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.

SECTION 143. COLLATERALIZATION OF DEPOSITORY SERVICES

Public deposits shall only be made in qualified public depositories as established by California law. In selecting depositories pursuant to the Code, Section 53600, et seq., the credit worthiness, financial stability, and financial history of the institution, as well as the cost and scope of services and interest rates offered shall be considered. No funds will be deposited in an institution unless that institution has been evaluated by a nationally recognized independent rating service as satisfactory or better.

Under the provisions of the California Government Code, banks and savings and loan associations must secure public funds deposits with eligible securities having a market value of 110% of the total amount of the deposits. State law also allows as an eligible security, first trust deeds having a value of one hundred fifty percent (150%) of the total amount of the deposits. A third class of collateral is letters of credit drawn on the Federal Home Loan Bank (FHLB).

Deposits of \$250,000 or less which are insured pursuant to federal law by the Federal Deposit Insurance Corporation (FDIC), or the National Credit Union Administration (NCUA) may be excluded from the independent rating service evaluation requirement.

The City Treasurer may waive, at his/her discretion, security for that portion of a deposit which is insured pursuant to federal law. Currently, the first two hundred, fifty thousand dollars (\$250,000) of a deposit is federally insured. It is to the City's advantage to waive this collateral requirement for the first \$250,000 to achieve a higher interest rate.

SECTION 154. INVESTMENT MATURITY

State law (Government Code Section 53601) provides that city treasurers may not invest funds in securities which have a term remaining to maturity in excess of five years from the date of investment, unless the City Council "...grants express authority to make that investment either specifically or as a part of an investment program approved by the City Council no less than three months prior to the investment."

It shall be the duty of the City Treasurer, to the extent possible; to match the investments with anticipated cash flow requirements. The maximum maturity will be five years from settlement date. The prescribed method of the City of Fullerton shall be referred to as "layering" the investments. Monies not needed to cover immediate operating costs may be invested up to a five-year maturity. The duration of the long-term portfolio(s) shall be managed in a range of +/- 25% of the benchmarks set forth in Section 16 (b) and (c), below. Portfolio duration may deviate from these ranges at the City's discretion based upon changes in the City's circumstances.

SECTION 165. PORTFOLIO ADJUSTMENTS

The diversification requirements set forth in Section 8 relating to the maximum allowable percentage for a particular issuer or investment type shall apply at the time of purchase. Due to fluctuations in the aggregate invested balance, these maximum percentages may be exceeded

from time to time and shall not require liquidation to realign the portfolio. However, consideration should be given to this matter when future purchases are made and the Treasurer shall consider rebalancing the portfolio after evaluating the expected length of time that it will be imbalanced.

The credit rating requirements set forth in Section 8 shall apply at the time of purchase. Should the credit rating of a security owned by the City be downgraded to a level below that required by this Investment Policy, the City will review the credit situation and determine if such securities should be sold or retained in the portfolio based upon its remaining term to maturity, the credit outlook for the issuer, and other relevant facts and circumstances. If the decision is made to retain a downgraded security, it will be closely monitored by the City and reported on quarterly to the Investment Committee.

Should any investment fall out of compliance with any other guidelines of this policy after its purchase, the City will review the situation and determine if such securities should be sold or retained in the portfolio based upon its remaining term to maturity, the credit outlook for the issuer, and other relevant facts and circumstances. If the decision is made to retain such a security, it will be closely monitored by the City and reported on quarterly to the Investment Committee.

SECTION 176. PERFORMANCE STANDARD

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues through a Cashflow model, thus ensuring the investment of monies to the fullest extent possible, including the estimated float for the Active Account and the Payroll Account. The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments.

The City Treasurer shall monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s). The City Treasurer shall select an appropriate, readily available index to use as a market benchmark. Benchmarks may change over time based on changes in market conditions and/or cash flow requirements.

In order to assist in the evaluation of the Portfolio's performance, the City will use performance benchmarks ~~for the short-term and long-term portfolios~~. The use of benchmarks will allow the City to measure its returns against other investors in the same markets. A benchmark should not be chosen which would induce the individual making the investment to take on undue risk in order to outperform the benchmark.

- ~~(a) The 3-month Treasury bill or the average of the monthly LAIF rate will be used as a benchmark for comparison with the Portfolio's net book value rate of return for current operating funds (short-term portfolio). The duration of the index should be similar to that of the short-term portfolio for performance comparison.~~
- ~~(b) Investment performance of funds designated as Core Funds and other non-operating funds that have a longer-term investment horizon (long-term portfolio) will be compared to the BofA Merrill Lynch 1-3 Year Government/Credit Index. The appropriate index will have a duration and asset mix that approximates that of the Investment Portfolio and will be utilized as a benchmark to be compared to the Investment Portfolio's total rate of return.~~
- ~~(c) Investment performance of funds designated as Reserve Funds and other non-operating funds that have a longer-term investment horizon (reserve portfolio) will be compared to the BofA Merrill Lynch 1-5 Year Government/Credit Index. The appropriate index will have~~

~~a duration and asset mix that approximates that of the Investment Portfolio and will be utilized as a benchmark to be compared to the Investment Portfolio's total rate of return.~~

SECTION 187. REPORTING

~~Monthly transaction reports will be submitted by the City Treasurer to the City Council in accordance with California Government Code Section 53607 and Fullerton Municipal Code Section 2.44.010.~~

The Treasurer shall submit on a quarterly basis a report to the City Council showing the type of investment, issuer, date of maturity, amount of deposit, current market value for all securities, rate of interest, interest earned, and such other information as may be required by the City Council.

SECTION 198. DELEGATION OF AUTHORITY

~~The City Council, consistent with Section 53607 of the Government Code, delegates the authority to make investments on the City's behalf to the City Treasurer. The City Treasurer shall assume full responsibility for all investment transactions made under this delegation of authority, and report these transactions quarterly to the City Council.~~

~~Authority to manage the City's investment program is derived from California Government Code, Sections 41006 for City Treasurers and 53600 *et seq.*~~

~~The City Council is responsible for the management of the City's funds, including the administration of this investment policy. Management responsibility for the cash management of the City's temporary idle funds is hereby delegated to the City Treasurer.~~

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

~~The City may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.~~

~~The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of the overall portfolio's return and the cash flow requirements of the City.~~

SECTION 2049. INVESTMENT ADVISORY COMMITTEE

To strengthen and implement sound investment strategies and provide control over the City's investments, an Investment Advisory Committee has been established to review and make recommendations on investment policy, review investment portfolio, and provide feedback on investment strategy of the City of Fullerton and the Fullerton Successor Agency. The Committee is comprised of the following members:

1. One City Council member (appointed by Council).

2. ~~Three-Five~~ Fullerton citizens, appointed by the City Council, with professional financial management experience in either financial planning, commercial banking, investment banking, or a related field. The citizens chosen by City Council to serve on the Investment Advisory Committee shall serve four-year terms, and shall be removable from the Committee at the will of the Council.
3. ~~City Manager.~~
4. ~~Director of Administrative Services.~~
5. ~~City Treasurer (if duties are not assigned to the Director of Administrative Services).~~

The Committee shall meet quarterly to:

- a. Review the City's investments which are currently held.
- b. Recommend modifications of this Investment Policy to the City Council.
- c. Develop and carry out the ongoing investment strategy in accordance with this Investment Policy.

~~During the meetings~~ All Investment Committee meetings will be public meetings and duly noticed, with a posted agenda and action minutes will be taken and available for public review.

The Committee shall not inhibit the daily operations performed by the City Treasurer, but rather provide guidelines, input and parameters for the investment of the City's portfolio. Individual trades need not be approved by the Committee provided they fall within the scope of this Investment Policy.

SECTION 210. INVESTMENT POLICY ADOPTION

The City of Fullerton's Investment Policy shall be submitted to the City Council ~~as needed~~ annually for review and approval of any modifications. The basic premise underlying this Investment Policy is to ensure that idle funds are safe, available when needed, and invested at the highest yield possible after safety and liquidity standards are met.

SECTION 224. GLOSSARY

Because this policy is to be available to the public as well as the governing body, it is important that a glossary of related terminology be part of the policy. Please refer to Attachment A for the terms.

ATTACHMENT A
GLOSSARY OF INVESTMENT TERMS

Accrued Interest. Interest earned but which has not yet been paid or received.

Agency. See "Federal Agency Securities."

Ask Price. Price at which a broker/dealer offers to sell a security to an investor. Also known as "offered price."

Asset Backed Securities (ABS). A fixed-income security backed by notes or receivables against assets other than real estate. Generally issued by special purpose companies that "own" the assets and issue the ABS. Examples include securities backed by auto loans, credit card receivables, home equity loans, manufactured housing loans, farm equipment loans and aircraft leases.

Average Life. The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

B of A Merrill Lynch 1-3 Year U.S. Corporate/Government Bond Index AA or Better. This index includes publicly issued U.S. Treasury debt, U.S. government agency debt, taxable debt issued by U.S. states and territories and their political subdivisions, debt issued by U.S. and non-U.S. corporations, non-U.S. government debt and supranational debt. This index will be utilized as a performance benchmark for the City's core portfolio.

Bankers' Acceptance (BA's). A draft or bill of exchange drawn upon and accepted by a bank. Frequently used to finance shipping of international goods. Used as a short-term credit instrument, bankers' acceptances are traded at a discount from face value as a money market instrument in the secondary market on the basis of the credit quality of the guaranteeing bank.

Basis Point. One hundredth of one percent, or 0.01%. Thus 1% equals 100 basis points.

Bearer Security. A security whose ownership is determined by the holder of the physical security. Typically, there is no registration on the issuer's books. Title to bearer securities is transferred by delivery of the physical security or certificate. Also known as "physical securities."

Benchmark Bills: In November 1999, FNMA introduced its Benchmark Bills program, a short-term debt securities issuance program to supplement its existing discount note program. The program includes a schedule of larger, weekly issues in three- and six-month maturities and biweekly issues in one-year for Benchmark Bills. Each issue is brought to market via a Dutch (single price) auction. FNMA conducts a weekly auction for each Benchmark Bill maturity and accepts both competitive and non-competitive bids through a web based auction system. This program is in addition to the variety of other discount note maturities, with rates posted on a daily basis, which FNMA offers. FNMA's Benchmark Bills are unsecured general obligations that are issued in book- entry form through the Federal Reserve Banks. There are no periodic payments of interest on Benchmark Bills, which are sold at a discount from the principal amount and payable at par at maturity. Issues under the Benchmark program constitute the same credit standing as other FNMA discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

Benchmark Notes/Bonds: Benchmark Notes and Bonds are a series of FNMA "bullet" maturities (non-callable) issued according to a pre-announced calendar. Under its Benchmark Notes/Bonds

program, 2, 3, 5, 10 and 30- year maturities are issued each quarter. Each Benchmark Notes new issue has a minimum size of \$4 billion, 30- year new issues having a minimum size of \$1 billion, with re-openings based on investor demand to further enhance liquidity. The amount of non-callable issuance has allowed FNMA to build a yield curve in Benchmark Notes and Bonds in maturities ranging from 2 to 30 years. The liquidity emanating from these large size issues has facilitated favorable financing opportunities through the development of a liquid overnight and term repo market. Issues under the Benchmark program constitute the same credit standing as other FNMA issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Benchmark. A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance and duration of the actual portfolio's investments.

Bid Price. Price at which a broker/dealer offers to purchase a security from an investor.

Bond Market Association (BMA). The bond market trade association representing the largest securities markets in the world. In addition to publishing a Master Repurchase Agreement, widely accepted as the industry standard document for Repurchase Agreements, the BMA also recommends bond market closures and early closes due to holidays.

Bond. Financial obligation for which the issuer promises to pay the bondholder (the purchaser or owner of the bond) a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book Entry Securities. Securities that are recorded in a customer's account electronically through one of the financial markets electronic delivery and custody systems, such as the Fed Securities wire, DTC and PTC (as opposed to bearer or physical securities). The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors' concerns about the certificates themselves. The vast majority of securities are now book entry securities.

Book Value. The value at which a debt security is reflected on the holder's records at any point in time. Book value is also called "amortized cost" as it represents the original cost of an investment adjusted for amortization of premium or accretion of discount. Also called "carrying value." Book value can vary over time as an investment approaches maturity and differs from "market value" in that it is not affected by changes in market interest rates.

Broker/Dealer. A person or firm transacting securities business with customers. A "broker" acts as an agent between buyers and sellers, and receives a commission for these services. A "dealer" buys and sells financial assets from its own portfolio. A dealer takes risk by owning inventory of securities, whereas a broker merely matches up buyers and sellers. See also "Primary Dealer."

Bullet Notes/Bonds. Notes or bonds that have a single maturity date and are non-callable.

California Local Agency Bonds: Bonds that are issued by a California county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

Call Date. Date at which a call option may be or is exercised.

Call Option. The right, but not the obligation, of an issuer of a security to redeem a security at a specified value and at a specified date or dates prior to its stated maturity date. Most fixed-income calls are a par, but can be at any previously established price. Securities issued with a call provision typically carry a higher yield than similar securities issued without a call feature. There are three primary types of call options (1) European - one-time calls, (2) Bermudan - periodically on a predetermined schedule (quarterly, semi-annual, annual), and (3) American - continuously callable at any time on or after the call date. There is usually a notice period of at least 5 business days prior to a call date.

Callable Bonds/Notes. Securities, which contain an imbedded call option giving the issuer, the right to redeem the securities prior to maturity at a predetermined price and time.

Certificate of Deposit (CD). Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity). Can be as long as 10 years to maturity, but most CDs purchased by public agencies are one year and under.

Collateral. Investment securities or other property that a borrower pledges to secure repayment of a loan, secure deposits of public monies, or provide security for a repurchase agreement.

Collateralization. Process by which a borrower pledges securities, property, or other deposits for securing the repayment of a loan and/or security.

Collateralized Mortgage Obligation (CMO). A security that pools together mortgages and separates them into short, medium, and long-term positions (called tranches). Tranches are set up to pay different rates of interest depending upon their maturity. Interest payments are usually paid monthly. In "plain vanilla" CMOs, principal is not paid on a tranche until all shorter tranches have been paid off. This system provides interest and principal in a more predictable manner. A single pool of mortgages can be carved up into numerous tranches each with its own payment and risk characteristics.

Commercial Paper. Short term unsecured promissory note issued by a company or financial institution. Issued at a discount and matures for par or face value. Usually a maximum maturity of 270 days, and given a short-term debt rating by one or more NRSROs.

Convexity. A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Corporate Note. A debt instrument issued by a corporation with a maturity of greater than one year and less than ten years.

Counterparty. The other party in a two party financial transaction. "Counterparty risk" refers to the risk that the other party, to a transaction, will fail in its related obligations. For example, the bank or broker/dealer in a repurchase agreement.

Coupon Rate. Annual rate of interest on a debt security, expressed as a percentage of the bond's face value.

Current Yield. Annual rate of return on a bond based on its price. Calculated as (coupon rate /price), but does not accurately reflect a bond's true yield level.

Custody. Safekeeping services offered by a bank, financial institution or trust company, referred to as the "custodian." Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement and market values.

Dealer. A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Delivery Versus Payment (DVP). Settlement procedure in which securities are delivered versus payment of cash, but only after cash has been received. Most security transactions, including those through the Fed Securities Wire system and DTC, are done DVP as a protection for both the buyer and seller of securities.

Depository Trust Company (DTC). A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of certificates. A member of the Federal Reserve System and owned mostly by the New York Stock Exchange, the Depository Trust Company uses computerized debit and credit entries. Most corporate securities, commercial paper, CDs and BAs clear through DTC.

Derivatives. For hedging purposes, common derivatives are options, futures, swaps and swaptions. All Collateralized Mortgage Obligations (“CMOs”) are derivatives. (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

Derivative Security. Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

Designated Bond. FFCB’s regularly issued, liquid, non-callable securities that generally have a 2 or 3 year original maturity. New issues of Designated Bonds are \$1 billion or larger. Re-openings of existing Designated Bond issues are generally a minimum of \$100 million. Designated Bonds are offered through a syndicate of two to six dealers. Twice each month the Funding Corporation announces its intention to issue a new Designated Bond, reopen an existing issue, or to not issue or reopen a Designated Bond. Issues under the Designated Bond program constitute the same credit standing as other FFCB issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Discount Notes. Unsecured general obligations issued by Federal Agencies at a discount. Discount notes mature at par and can range in maturity from overnight to one year. Very large primary (new issue) and secondary markets.

Discount Rate. Rate charged by the system of Federal Reserve Banks on overnight loans to member banks. Changes to this rate are administered by the Federal Reserve and closely mirror changes to the “fed funds rate.”

Discount Securities. Non-interest bearing money market instruments that are issued at discount and redeemed at maturity for full face value. Examples include: U.S. Treasury Bills, Federal Agency Discount Notes, Bankers' Acceptances and Commercial Paper.

Discount. The amount by which a bond or other financial instrument sells below its face value. See also "Premium."

Diversification. Dividing investment funds among a variety of security types, maturities, industries and issuers offering potentially independent returns.

Dollar Price. A bond’s cost expressed as a percentage of its face value. For example, a bond quoted at a dollar price of 95 ½, would have a principal cost of \$955 per \$1,000 of face value.

Duff & Phelps. One of several NRSROs that provide credit ratings on corporate and bank debt issues.

Duration. The weighted average maturity of a security's or portfolio's cash flows, where the present values of the cash flows serve as the weights. The greater the duration of a security/portfolio, the greater its percentage price volatility with respect to changes in interest rates. Used as a measure of risk and a key tool for managing a portfolio versus a benchmark and for hedging risk. There are also different kinds of duration used for different purposes (e.g. MacAuley Duration, Modified Duration).

Fannie Mae. See "Federal National Mortgage Association."

Fed Money Wire. A computerized communications system that connects the Federal Reserve System with its member banks, certain U. S. Treasury offices, and the Washington D.C. office of the Commodity Credit Corporation. The Fed Money Wire is the book entry system used to transfer cash balances between banks for themselves and for customer accounts.

Fed Securities Wire. A computerized communications system that facilitates book entry transfer of securities between banks, brokers and customer accounts, used primarily for settlement of U.S. Treasury and Federal Agency securities.

Fed. See "Federal Reserve System."

Federal Agency Security. A debt instrument issued by one of the Federal Agencies. Federal Agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

Federal Agency. Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets. The largest Federal Agencies are GNMA, FNMA, FHLMC, FHLB, FFCB, SLMA, and TVA.

Federal Deposit Insurance Corporation (FDIC). Federal agency that insures deposits at commercial banks, currently to a limit of \$250,000 per depositor per bank.

Federal Farm Credit Bank (FFCB). One of the large Federal Agencies. A government sponsored enterprise (GSE) system that is a network of cooperatively-owned lending institutions that provides credit services to farmers, agricultural cooperatives and rural utilities. The FFCBs act as financial intermediaries that borrow money in the capital markets and use the proceeds to make loans and provide other assistance to farmers and farm-affiliated businesses. Consists of the consolidated operations of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks. Frequent issuer of discount notes, agency notes and callable agency securities. FFCB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and agricultural industry. Also issues notes under its "designated note" program.

Federal Funds (Fed Funds). Funds placed in Federal Reserve Banks by depository institutions in excess of current reserve requirements, and frequently loaned or borrowed on an overnight basis between depository institutions.

Federal Funds Rate (Fed Funds Rate). The interest rate charged by a depository institution lending Federal Funds to another depository institution. The Federal Reserve influences this rate

by establishing a "target" Fed Funds rate associated with the Fed's management of monetary policy.

Federal Home Loan Bank System (FHLB). One of the large Federal Agencies. A government sponsored enterprise (GSE) system, consisting of wholesale banks (currently twelve district banks) owned by their member banks, which provides correspondent banking services and credit to various financial institutions, financed by the issuance of securities. The principal purpose of the FHLB is to add liquidity to the mortgage markets. Although FHLB does not directly fund mortgages, it provides a stable supply of credit to thrift institutions that make new mortgage loans. FHLB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its "global note" and "TAP" programs.

Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac"). One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages and participation interests financed by the sale of debt and guaranteed mortgage backed securities. FHLMC debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "reference note" program.

Federal National Mortgage Association (FNMA or "Fannie Mae"). One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "benchmark note" program.

Federal Reserve Bank. One of the 12 distinct banks of the Federal Reserve System.

Federal Reserve System (the Fed). The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Fed Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven-member Board of Governors known as the "Federal Reserve Board" and headed by its Chairman.

Financial Industry Regulatory Authority, Inc (FINRA). A private corporation that acts as a self-regulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD). Though sometimes mistaken for a government agency, it is a non-governmental organization that performs financial regulation of member brokerage firms and exchange markets. The government also has a regulatory arm for investments, the Securities and Exchange Commission.

Fiscal Agent/Paying Agent. A bank or trust company that acts, under a trust agreement with a corporation or municipality, in the capacity of general treasurer. The agent performs such duties

as making coupon payments, paying rents, redeeming bonds, and handling taxes relating to the issuance of bonds.

Fitch Investors Service, Inc. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Floating Rate Security (FRN or “floater”). A bond with an interest rate that is adjusted according to changes in an interest rate or index. Differs from variable-rate debt in that the changes to the rate take place immediately when the index changes, rather than on a predetermined schedule. See also “Variable Rate Security.”

Freddie Mac. See "Federal Home Loan Mortgage Corporation".

Ginnie Mae. See "Government National Mortgage Association".

Global Notes: Notes designed to qualify for immediate trading in both the domestic U.S. capital market and in foreign markets around the globe. Usually large issues that are sold to investors worldwide and therefore have excellent liquidity. Despite their global sales, global notes sold in the U.S. are typically denominated in U.S. dollars.

Government National Mortgage Association (GNMA or "Ginnie Mae"). One of the large Federal Agencies. Government-owned Federal Agency that acquires, packages, and resells mortgages and mortgage purchase commitments in the form of mortgage-backed securities. Largest issuer of mortgage pass-through securities. GNMA debt is guaranteed by the full faith and credit of the U.S. government (one of the few agencies that is actually full faith and credit of the U.S.).

Government Securities. An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, Bonds, and SLGS."

Government Sponsored Enterprise (GSE). Privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over U.S. Treasuries. Some consider GSEs to be stealth recipients of corporate welfare. Examples of GSEs include: FHLB, FHLMC, FNMA and SLMA.

Government Sponsored Enterprise Security. A security issued by a Government Sponsored Enterprise. Considered Federal Agency Securities.

Index. A compilation of statistical data that tracks changes in the economy or in financial markets.

Interest-Only (IO) STRIP. A security based solely on the interest payments from the bond. After the principal has been repaid, interest payments stop and the value of the security falls to nothing. Therefore, IOs are considered risky investments. Usually associated with mortgage-backed securities.

Internal Controls. An internal control structure ensures that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of

costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

1. **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. **Separation of transaction authority from accounting and record keeping** - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

Inverse Floater. A floating rate security structured in such a way that it reacts inversely to the direction of interest rates. Considered risky as their value moves in the opposite direction of normal fixed-income investments and whose interest rate can fall to zero.

Investment Advisor. A company that provides professional advice managing portfolios, investment recommendations and/or research in exchange for a management fee.

Investment Adviser Act of 1940. Federal legislation that sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment Grade. Bonds considered suitable for preservation of invested capital; bonds rated a minimum of Baa3 by Moody's, BBB- by Standard & Poor's, or BBB- by Fitch. Although "BBB" rated bonds are considered investment grade, most public agencies cannot invest in securities rated below "A."

Liquidity. Relative ease of converting an asset into cash without significant loss of value. Also, a relative measure of cash and near-cash items in a portfolio of assets. Also, a term describing

the marketability of money market security correlating to the narrowness of the spread between the bid and ask prices.

Local Agency Investment Fund (LAIF): A voluntary investment fund open to state and local government entities and certain non-profit organizations in California in which organization pools their funds for investment. LAIF is managed by the State Treasurer's Office.

Long-Term Core Investment Program. Funds that are not needed within a one year period.

Market Value. The fair market value of a security or commodity. The price at which a willing buyer and seller would pay for a security.

Mark-to-market. Adjusting the value of an asset to its market value, reflecting in the process unrealized gains or losses.

Master Repurchase Agreement. A widely accepted standard agreement form published by the Bond Market Association (BMA) that is used to govern and document Repurchase Agreements and protects the interest of parties in a repo transaction.

Maturity Date. Date on which principal payment of a financial obligation is to be paid.

Medium Term Notes (MTN's). Used frequently to refer to corporate notes of medium maturity (5-years and under). Technically, any debt security issued by a corporate or depository institution with a maturity from 1 to 10 years and issued under an MTN shelf registration. Usually issued in smaller issues with varying coupons and maturities, and underwritten by a variety of broker/dealers (as opposed to large corporate deals issued and underwritten all at once in large size and with a fixed coupon and maturity).

Money Market. The market in which short-term debt instruments (bills, commercial paper, bankers' acceptance, etc.) are issued and traded.

Money Market Mutual Fund (MMF). A type of mutual fund that invests solely in money market instruments, such as: U.S. Treasury bills, commercial paper, bankers' acceptances, and repurchase agreements. Money market mutual funds are registered with the SEC under the Investment Company Act of 1940 and are subject "rule 2a-7" which significantly limits average maturity and credit quality of holdings. MMF's are managed to maintain a stable net asset value (NAV) of \$1.00. Many MMFs carry ratings by a NRSRO.

Moody's Investors Service. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Mortgage Backed Securities (MBS). Mortgage-backed securities represent an ownership interest in a pool of mortgage loans made by financial institutions, such as savings and loans, commercial banks, or mortgage companies, to finance the borrower's purchase of a home or other real estate. The majority of MBS are issued and/or guaranteed by GNMA, FNMA and FHLMC. There are a variety of MBS structures, some of which can be very risky and complicated. All MBS have reinvestment risk as actual principal and interest payments are dependent on the payment of the underlying mortgages which can be prepaid by mortgage holders to refinance and lower rates or simply because the underlying property was sold.

Mortgage Pass-Through Securities. A pool of residential mortgage loans with the monthly interest and principal distributed to investors on a pro-rata basis. Largest issuer is GNMA.

Municipal Note/Bond. A debt instrument issued by a state or local government unit or public agency. The vast majority of municipals are exempt from state and federal income tax, although some non-qualified issues are taxable.

Mutual Fund. Portfolio of securities professionally managed by a registered investment company that issues shares to investors. Many different types of mutual funds exist (bond, equity, money fund); all except money market funds operate on a variable net asset value (NAV).

Negotiable Certificate of Deposit (Negotiable CD). Large denomination CDs (\$100,000 and larger) that are issued in bearer form and can be traded in the secondary market.

Net Asset Value. The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.)

$$[(\text{Total assets}) - (\text{Liabilities})] / (\text{Number of shares outstanding})$$

NRSRO. A "Nationally Recognized Statistical Rating Organization." A designated rating organization that the SEC has deemed a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of a NRSRO may be used for the regulatory purposes of rating. Includes Moody's, S&P, Fitch and Duff & Phelps.

Offered Price. See also "Ask Price."

Open Market Operations. Federal Reserve monetary policy tactic entailing the purchase or sale of government securities in the open market by the Federal Reserve System from and to primary dealers in order to influence the money supply, credit conditions, and interest rates.

Par Value. Face value, stated value or maturity value of a security.

Physical Delivery. Delivery of readily available underlying assets at contract maturity.

Portfolio. Collection of securities and investments held by an investor.

Premium. The amount by which a bond or other financial instrument sells above its face value. See also "Discount."

Primary Dealer. Any of a group of designated government securities dealers designated by to the Federal Reserve Bank of New York. Primary dealers can buy and sell government securities directly with the Fed. Primary dealers also submit daily reports of market activity and security positions held to the Fed and are subject to its informal oversight. Primary dealers are considered the largest players in the U.S. Treasury securities market.

Prime Paper. Commercial paper of high quality. Highest rated paper is A-1+/A-1 by S&P and P-1 by Moody's.

Principal. Face value of a financial instrument on which interest accrues. May be less than par value if some principal has been repaid or retired. For a transaction, principal is par value multiplied by price and includes any premium or discount.

Prudent Investor Standard. Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill,

prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. More stringent than the “prudent person” standard as it implies a level of knowledge commensurate with the responsibility at hand.

Range Note. A type of structured note that accrues interest daily at a set coupon rate that is tied to an index. Most range notes have two coupon levels; a higher accrual rate for the period the index is within a designated range, the lower accrual rate for the period that the index falls outside the designated range. This lower rate may be zero and may result in zero earnings.

Rate of Return. Amount of income received from an investment, expressed as a percentage of the amount invested.

Realized Gains (Losses). The difference between the sale price of an investment and its book value. Gains/losses are “realized” when the security is actually sold, as compared to “unrealized” gains/losses which are based on current market value. See “Unrealized Gains (Losses).”

Reference Bills: FHLMC’s short-term debt program created to supplement its existing discount note program by offering issues from one month through one year, auctioned on a weekly or on an alternating four-week basis (depending upon maturity) offered in sizeable volumes (\$1 billion and up) on a cycle of regular, standardized issuance. Globally sponsored and distributed, Reference Bill issues are intended to encourage active trading and market-making and facilitate the development of a term repo market. The program was designed to offer predictable supply, pricing transparency and liquidity, thereby providing alternatives to U.S. Treasury bills. FHLMC’s Reference Bills are unsecured general corporate obligations. This program supplements the corporation’s existing discount note program. Issues under the Reference program constitute the same credit standing as other FHLMC discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

Reference Notes: FHLMC’s intermediate-term debt program with issuances of 2, 3, 5, 10 and 30-year maturities. Initial issuances range from \$2 - \$6 billion with re-openings ranging \$1 - \$4 billion. The notes are high-quality bullet structures securities that pay interest semiannually. Issues under the Reference program constitute the same credit standing as other FHLMC notes; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Repurchase Agreement (Repo). A short-term investment vehicle where an investor agrees to buy securities from a counterparty and simultaneously agrees to resell the securities back to the counterparty at an agreed upon time and for an agreed upon price. The difference between the purchase price and the sale price represents interest earned on the agreement. In effect, it represents a collateralized loan to the investor, where the securities are the collateral. Can be DVP, where securities are delivered to the investor’s custodial bank, or “tri-party” where the securities are delivered to a third party intermediary. Any type of security can be used as “collateral,” but only some types provide the investor with special bankruptcy protection under the law. Repos should be undertaken only when an appropriate BMA approved master repurchase agreement is in place.

Reverse Repurchase Agreement (Reverse Repo). A repo from the point of view of the original seller of securities. Used by dealers to finance their inventory of securities by essentially borrowing at short-term rates. Can also be used to leverage a portfolio and in this sense, can be considered risky if used improperly.

Safekeeping. Service offered for a fee, usually by financial institutions, for the holding of securities and other valuables. Safekeeping is a component of custody services.

Secondary Market. Markets for the purchase and sale of any previously issued financial instrument.

Securities Lending. An arrangement between an investor and a custody bank that allows the custody bank to "loan" the investor's investment holdings, reinvest the proceeds in permitted investments, and share any profits with the investor. Should be governed by a securities lending agreement. Can increase the risk of a portfolio in that the investor takes on the default risk on the reinvestment at the discretion of the custodian.

Sinking Fund. A separate accumulation of cash or investments (including earnings on investments) in a fund in accordance with the terms of a trust agreement or indenture, funded by periodic deposits by the issuer (or other entity responsible for debt service), for the purpose of assuring timely availability of monies for payment of debt service. Usually used in connection with term bonds.

Spread. The difference between the price of a security and similar maturity U.S. Treasury investments, expressed in percentage terms or basis points. A spread can also be the absolute difference in yield between two securities. The securities can be in different markets or within the same securities market between different credits, sectors, or other relevant factors.

Standard & Poor's. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

STRIPS (Separate Trading of Registered Interest and Principal of Securities). Acronym applied to U.S. Treasury securities that have had their coupons and principal repayments separated into individual zero-coupon Treasury securities. The same technique and "strips" description can be applied to non-Treasury securities (e.g. FNMA strips).

Structured Notes. Notes that have imbedded into their structure options such as step-up coupons or derivative-based returns.

Supranational Debt. The debt of an international or multi-lateral financial agency used to finance economic and infrastructure development, environmental protection, poverty reduction and renewable energy around the world. Supranational debt is typically rated AAA by most NRSRO's as these entities are well-capitalized, have significant capital commitments from a diverse capital base, conservative lending and risk management practices and strong supervision.

Swap. Trading one asset for another.

TAP Notes: Federal Agency notes issued under the FHLB TAP program. Launched in 6/99 as a refinement to the FHLB bullet bond auction process. In a break from the FHLB's traditional practice of bringing numerous small issues to market with similar maturities, the TAP Issue Program uses the four most common maturities and reopens them up regularly through a competitive auction. These maturities (2, 3, 5 and 10 year) will remain open for the calendar quarter, after which they will be closed and a new series of TAP issues will be opened to replace them. This reduces the number of separate bullet bonds issued, but generates enhanced awareness and liquidity in the marketplace through increased issue size and secondary market volume.

Tennessee Valley Authority (TVA). One of the large Federal Agencies. A wholly owned corporation of the United States government that was established in 1933 to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. Power operations are separated from non-power operations. TVA securities represent obligations of TVA, payable solely from TVA's net power proceeds, and are neither obligations of nor guaranteed by the United States. TVA is currently authorized to issue debt up to \$30 billion. Under this authorization, TVA may also obtain advances from the U.S. Treasury of up to \$150 million. Frequent issuer of discount notes, agency notes and callable agency securities.

Total Return. Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

Treasuries. Collective term used to describe debt instruments backed by the U.S. Government and issued through the U.S. Department of the Treasury. Includes Treasury bills, Treasury notes, and Treasury bonds. Also a benchmark term used as a basis by which the yields of non-Treasury securities are compared (e.g., "trading at 50 basis points over Treasuries").

Treasury Bills (T-Bills). Short-term direct obligations of the United States Government issued with an original term of one year or less. Treasury bills are sold at a discount from face value and do not pay interest before maturity. The difference between the purchase price of the bill and the maturity value is the interest earned on the bill. Currently, the U.S. Treasury issues 4-week, 13-week and 26-week T-Bills

Treasury Bonds. Long-term interest-bearing debt securities backed by the U.S. Government and issued with maturities of ten years and longer by the U.S. Department of the Treasury. The Treasury stopped issuing Treasury Bonds in August 2001.

Treasury Notes. Intermediate interest-bearing debt securities backed by the U.S. Government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury. The Treasury currently issues 2-year, 5-year and 10-year Treasury Notes.

Trustee. A bank designated by an issuer of securities as the custodian of funds and official representative of bondholders. Trustees are appointed to insure compliance with the bond documents and to represent bondholders in enforcing their contract with the issuer.

Uniform Net Capital Rule. SEC regulation 15C3-1 that outlines the minimum net capital ratio (ratio of indebtedness to net liquid capital) of member firms and non-member broker/dealers.

Unrealized Gains (Losses). The difference between the market value of an investment and its book value. Gains/losses are "realized" when the security is actually sold, as compared to "unrealized" gains/losses which are based on current market value. See also "Realized Gains (Losses)."

Variable-Rate Security. A bond that bears interest at a rate that varies over time based on a specified schedule of adjustment (e.g., daily, weekly, monthly, semi-annually or annually). See also "Floating Rate Note."

Weighted Average Maturity (or just "Average Maturity"). The average maturity of all securities and investments of a portfolio, determined by multiplying the par or principal value of each security or investment by its maturity (days or years), summing the products, and dividing

the sum by the total principal value of the portfolio. A simple measure of risk of a fixed-income portfolio.

Weighted Average Maturity to Call. The average maturity of all securities and investments of a portfolio, adjusted to substitute the first call date per security for maturity date for those securities with call provisions.

Yield Curve. A graphic depiction of yields on like securities in relation to remaining maturities spread over a time line. The traditional yield curve depicts yields on U.S. Treasuries, although yield curves exist for Federal Agencies and various credit quality corporates as well. Yield curves can be positively sloped (normal) where longer-term investments have higher yields, or "inverted" (uncommon) where longer-term investments have lower yields than shorter ones.

Yield to Call (YTC). Same as "Yield to Maturity," except the return is measured to the first call date rather than the maturity date. Yield to call can be significantly higher or lower than a security's yield to maturity.

Yield to Maturity (YTM). Calculated return on an investment, assuming all cash flows from the security are reinvested at the same original yield. Can be higher or lower than the coupon rate depending on market rates and whether the security was purchased at a premium or discount. There are different conventions for calculating YTM for various types of securities.

Yield. There are numerous methods of yield determination. In this glossary, see also "Current Yield," "Yield Curve," "Yield to Call" and "Yield to Maturity."

CITY OF FULLERTON



STATEMENT OF INVESTMENT POLICY

Revised: April 2026

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STATEMENT OF INVESTMENT POLICY

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Attachment A. Glossary of Terms

STATEMENT OF INVESTMENT POLICY

SECTION 1. PURPOSE

This Investment Policy is intended to provide guidelines for the prudent investment of the City of Fullerton and the Fullerton Successor Agency's temporarily idle cash. Throughout this policy the term City or City of Fullerton shall refer to both the City of Fullerton and the Fullerton Successor Agency, unless otherwise indicated. Also outlined are the policies for maximizing the effectiveness of the City's cash management system. Bond proceeds shall be invested in accordance with the requirements and restrictions outlined in the bond documents. Bond proceeds and other funds or assets that are not part of the general pool shall not be subject to this Investment Policy. This Policy conforms to all existing requirements of State law governing the investment of public funds.

SECTION 2. POLICY

The investment practices and policies of the City of Fullerton are based upon state law, Fullerton Municipal Code and prudent money management of the City's temporary idle cash. The primary goals of these practices are:

- A. To assure compliance with all federal, state, and local laws governing the investment of public funds under the control of the City Treasurer.
- B. To protect the principal monies entrusted to this office.
- C. To achieve a reasonable rate of return within the parameters of prudent risk management while minimizing the potential for capital losses arising from market changes or issuer default.

SECTION 3. SCOPE

This Investment Policy shall apply to all funds that are under the City Treasurer's control including but not limited to the governmental, fiduciary, enterprise, and internal service, and trust and successor agency funds. These funds are accounted for and presented in the City's audited financial statements within the Annual Comprehensive Financial Report or ACFR. The City's 115 Pension and OPEB Trust funds and Deferred Compensation Plan shall be excluded from the scope of this policy and are subject to other governing state laws.

Except for cash in certain restricted and special funds, the City 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 will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

SECTION 4. OBJECTIVE

The Cash Management System of the City is designed to monitor and forecast expenditures and revenues, through a Cashflow model or other projection modeling; thus enabling the investment of funds to the fullest extent possible. It shall be the policy of the City to obtain a market rate of interest without assuming undue risk to principal, in accordance with State law Government Code Section 53600.3 and 53600.5.

The primary objectives of the City Treasurer, in priority order, shall be:

- A. **Safety** - To avoid potential loss of principal, interest, or combination thereof, safety shall be the highest priority for City investments. It shall be the responsibility of the City Treasurer to see that this Investment Policy is followed to ensure the safety of the City's portfolio. The City Treasurer shall certify in a quarterly report that all funds in the City's portfolio are being invested in accordance with this Investment Policy.
- B. **Liquidity** - Shall be the second priority for City investments to assure provision of cash for City operations as needed, with a negligible chance of any loss. Liquidity remains an essential investment consideration in view of the possible need for unexpected or emergency City expenditures.
- C. **Yield or Return on Investment** – The investment portfolio will be designed with the objective of attaining a market rate of return, or yield, throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs.
- D. **Diversification** – The City's investment portfolio will be diversified to avoid concentrating investments in specific security types or in individual financial institutions.

SECTION 5. PRUDENCE

Investments made by the City Treasurer in the name of the City of Fullerton shall be made with judgment and care 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 the City Treasurer shall be the *Prudent Investor Standard*, as defined in Government Code Section 53600.3 and shall be applied in managing the overall investment portfolio.

“...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 Agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

The City Treasurer, acting in accordance with this Investment Policy and exercising due diligence, shall have a duty to report in a timely manner to the City Manager and City Council in the event of adverse developments affecting the City's investments.

SECTION 6. INVESTMENT PROCEDURES

The City Treasurer will prepare written investment procedures consistent with this policy. The procedures will include: safekeeping, wire transfer instructions and agreements, permitted and prohibited instrument features, banking service contracts, authorized dealers/brokers, collateral/depository agreements, internal controls and delegation of authority to persons responsible for investment transactions.

SECTION 7. ETHICS AND CONFLICTS OF INTEREST

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. Thus, employees and officials involved in the investment process shall refrain from personal business activity that could create a conflict of interest or the appearance of a conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Employees and investment officials shall disclose to the Designated Official any material interests in financial institutions with which they conduct business, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the City.

Employees and investment officers are required to file annual disclosure statements as required for "public officials who manage public investments" as defined and required by the Political Reform Act and related regulations, being Government Code Sections 81000 and the Fair Political Practices Commission [FPPC].

SECTION 8. INTERNAL CONTROLS

The City Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Periodically, as deemed appropriate by the City and/or the City Council, an independent analysis by an external auditor shall be conducted to review internal controls, account activity and compliance with policies and procedures.

SECTION 9. AUTHORIZED INVESTMENTS

The City's investments are governed by California Government Code, Sections 53600 et seq. Within the investments permitted by the State Code, the City seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this policy and State Code, the more restrictive parameters will take precedence. Percentage holding limits and minimum credit requirements listed in this section apply at the time the security is purchased.

Any investment currently held at the time the policy is adopted which does not meet the new policy guidelines can be held until maturity and shall be exempt from the current policy. At the time of the investment's maturity or liquidation, such funds shall be reinvested only as provided in the current policy.

An appropriate risk level shall be maintained by primarily purchasing securities that are of high quality, liquid, and marketable. The portfolio shall be diversified by security type and issuer to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers.

Investments may be made in the following types of securities and permitted percentages within an investment type:

- A. **United States Treasury Securities:** Highly liquid and guaranteed as to principal and interest by the United States government with a final maturity not exceeding five years from the date of trade settlement. There is no percentage limit for this category.
- B. **Federal Agency or United States Government-Sponsored Enterprise (GSE) Obligations:** Obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or US government-sponsored enterprises with a final maturity not exceeding five years from the date of trade settlement. There is no limit to the amount of the City's portfolio that may be invested in Federal Agency or GSE securities, except that:
 1. The aggregate investment in federal agency mortgage-backed securities shall not exceed 20% of the City's total portfolio.
 2. The aggregate investment in any one federal agency or GSE issuer shall not exceed 30% of the City's total portfolio.
 3. No more than 20% of the total portfolio may be invested in callable agency securities.
- C. **Bankers Acceptances:** Negotiable time drafts which are drawn on foreign or domestic banks to finance the export, import, shipment, and storage of goods. The drafts are sold at a discount and redeemed by the accepting bank at maturity for full face value. The maximum maturity does not exceed 180 days. Bankers Acceptances can only be purchased if the issuing bank is rated "A-1" or its equivalent or better by at least one NRSRO. Purchases may not exceed forty percent (40%) of the total portfolio and no more than five percent (5%) of the total portfolio may be invested in any single issuer.
- D. **Commercial Paper:** Issued by corporations and financial institutions.
 1. Securities issued by corporations:
 - A corporation organized and operating in the United States with assets more than

\$500 million.

- The securities are rated “A-1” or its equivalent or better by at least one NRSRO.
- 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.

2. Securities issued by other entities:

- The issuer is organized within the United States as a special purpose corporation, trust, or limited liability company.
- The securities must have program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.
- The securities are rated “A-1” or its equivalent or better by at least one NRSRO.
- No more than 25% of the total portfolio may be invested in Commercial Paper. Under a provision sunsetting on January 1, 2031, no more than 40% of the total portfolio may be invested in Commercial Paper if the Agency’s investment assets under management are greater than \$100,000,000.
- No more than 5% of the total portfolio may be invested in any single issuer.
- The maximum maturity does not exceed 397 days.

E. Certificates of Deposit:

1. Negotiable certificates of deposit (NCD’s) are money market instruments issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. The maturity of NCD’s shall not exceed five years, and purchases of NCD’s shall not exceed thirty percent (30%) of the portfolio. Securities in this category exceeding federal deposit insurance limits shall be issued by institutions with a long-term debt rating category of “A” or its equivalent or better by at least one NRSRO.
2. Federally Insured Time Deposits (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions, provided that the amount per institution is limited to the maximum covered under federal insurance. No more than 20% of the total portfolio will be invested in a combination of federally insured and collateralized time deposits. The maximum maturity does not exceed five (5) years.
3. 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 no more than 20% of the total portfolio will be invested in a combination of federally insured and collateralized time deposits. The maximum maturity does not exceed five (5) years.

F. Repurchase Agreements (Repo’s): A Repurchase Agreement consists of two simultaneous transactions. One is the purchase of securities by an investor from a bank, the

other is the commitment by the bank to repurchase the securities at the same price at a mutually agreed upon future date. The investor receives an agreed upon rate of interest, generally at money market rates. Repo's shall be collateralized and written against U.S. Treasury, federal agency or government sponsored enterprises permitted by this statement of investment policy. The purchased securities (the "collateral") shall have a minimum market value of 102% of the dollar value of the funds invested. Purchases in this category shall not have a final termination date exceeding (360) from the date of trade settlement. No more than twenty five percent (25%) of the City's portfolio shall be invested in repurchase agreements.

G. Local Government Investment Pools (LGIP)

1. State of California Local Agency Investment Fund (LAIF), created by California Government Code Section 16429.1, provided that:
 - The Agency may invest up to the maximum amount permitted by LAIF.
 - LAIF's investments in instruments prohibited by or not specified in the Agency's policy do not exclude the investment in LAIF itself from the Agency's list of allowable investments, provided LAIF's reports allow the Designated Official to adequately judge the risk inherent in LAIF's portfolio.
2. Shares of Beneficial Interest Issued by a Joint Powers Authority (JPA), provided that:
 - The JPA is organized pursuant to California Government Code Section 6509.7 and invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive.
 - Each share shall represent an equal proportional interest in the underlying pool of securities owned by the JPA.
 - The JPA has retained 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 (q).
3. Other Local Government Investment Pools (LGIP)
 - Other LGIPs permitted by the agency (such as the Orange County Pool as defined by California Government Code Section 27000.3).
 - No more than 20% of the total portfolio may be invested in LGIPs other than LAIF and JPAs.
 - However, prior to such investment, that option shall be re-evaluated by the Treasurer and Investment Advisory Committee (see Section 15), and returned to Council for approval.

- H. Medium-Term Corporate Notes:** 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. Such securities must be rated in a rating category of "A" or higher by a nationally recognized rating service at the time of purchase. In the event the corporation falls below an "A" credit rating, an evaluation shall be conducted to determine its credit risk. The decision to sell the investment or hold till maturity will be assessed depending upon its credit risk. The maturity of medium-term corporate notes

shall not exceed five years, and purchases shall not exceed thirty percent (30%) of the portfolio. No more than five percent (5%) of the combined portfolio may be invested in the outstanding debt of any single corporate issuer.

Asset Backed Securities: A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities not issued or guaranteed by an agency or issuer identified in subdivision 53601(b) or 53601(f), the following limitations apply: eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO, these securities shall have a maximum remaining maturity of five years or less, and the purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section. No more than five percent (5%) of the total portfolio may be invested in any single asset backed issuer.

- I. **Municipal Bonds:** issued by the State of California and any local agency within the State, including bonds payable solely out of 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 United States, in addition to California. Such securities must be rated in a rating category of "A" or higher by a nationally recognized rating service at the time of purchase. In the event the municipality falls below an "A" credit rating, an evaluation shall be conducted to determine its credit risk. The decision to sell the investment or hold till maturity will be assessed depending upon its credit risk. The maturity of municipal bonds shall not exceed five years, and purchases shall not exceed twenty percent (30%) of the portfolio. No more than five percent (5%) of the combined portfolio may be invested in the outstanding commercial paper of any single issuer.
- J. **Supranational Debt:** the debt of an international or multi-lateral financial agency used to finance economic and infrastructure development, environmental protection, poverty reduction and renewable energy around the world. The City may invest in U.S. 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. Obligations eligible for investment under this subdivision shall be rated "AA" or its equivalent or better by a NRSRO and may not exceed thirty (30%) of the City's investment portfolio. No more than five percent (10%) of the total portfolio may be invested in the outstanding debt of any single supranational issuer. The maximum maturity may not exceed five (5) years.
- K. **Money Market Funds.** Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. To be eligible for investment pursuant to this subdivision these companies shall either:
 - (1) Attain the highest ranking letter or numerical rating provided by not less than two (2) NRSRO's; or
 - (2) Have an investment advisor registered or exempt from registration with the SEC with not less than five years' of experience managing money market mutual funds investing in the securities and obligations authorized by California Government Code, Section 53601 and with assets under management in excess of \$500 million.

Furthermore, no more than 10% of the City's total portfolio may be invested in any one money market fund.

SECTION 10. PROHIBITED INVESTMENT VEHICLES AND PRACTICES

It shall be the policy of the City to not invest any funds in inverse floaters, range notes, or mortgage-derived interest only strips, or any security that could result in zero interest accrual if held to maturity, and other similar derivative products. No investment prohibited by California Government Section 53601.6 shall be permitted herein.

Notwithstanding the prohibition noted above, the City may invest in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. A local agency may hold these instruments until their maturity dates.

It shall be the policy of the City of Fullerton to not invest directly in Reverse Repurchase Agreements. Further, the City shall not be permitted to invest in any pool which has more than ten percent (10%) of its total portfolio in Reverse Repurchase Agreements.

Trading securities for the sole purpose of speculating on the future direction of interest rates, selling securities on margin, and the purchase of foreign currency denominated securities is prohibited.

The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is prohibited.

However, callable securities, which otherwise meet the quality, maturity, and percent limitations assigned to their respective security category, are considered to be an acceptable investment.

SECTION 11. DELIVERY, SAFEKEEPING AND CUSTODY

All security transactions shall be conducted on a delivery-versus-payment (DVP) basis. Securities shall be held in third-party safekeeping of the City's bank or other designated third-party trust, in the City's name and evidenced by purchase confirmation and safekeeping receipts. 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) money market mutual funds, since these securities are not deliverable.

SECTION 12. MITIGATING RISK AND DIVERSIFICATION

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

- The diversification requirements included in the "Authorized Investments" section of this policy are designed to mitigate credit risk in the portfolio.
- No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.
- The Agency may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or the Agency's risk preferences.
- If a security owned by the Agency is downgraded to a level below the requirements of this

policy, making the security ineligible for additional purchases, the following steps will be taken:

- Any actions taken related to the downgrade by the investment manager will be communicated to the Designated Official in a timely manner.
- If a decision is made to retain the security, the credit situation will be monitored and reported to the Governing Body.

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 City 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 City 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 City 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 City, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The City will maintain a minimum of six months of budgeted operating expenditures in short-term investments to provide sufficient liquidity for expected disbursements.
- The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.
- The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the City based on the City's investment objectives, constraints and risk tolerances.

SECTION 13. AUTHORIZED FINANCIAL BROKERS AND INSTITUTIONS

The City Treasurer shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions which are approved for investment purposes that are selected through a process of due diligence as determined by the City. Due inquiry shall determine whether such authorized broker/dealers, and the individuals covering the City are reputable and trustworthy, knowledgeable and experienced in Public Agency investing and able to meet all of their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

In accordance with Section 53601.5, institutions eligible to transact investment business with the Agency include:

- Institutions licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, with proof of FINRA certification.
- Institutions that are members of a federally regulated securities exchange.
- Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
- Nationally or state-chartered banks.
- Savings association or federal association (as defined in Section 5102 of the Financial

Code).

- The Federal Reserve Bank.
- Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the City, except where the City utilizes an external investment adviser in which case the City may rely on the adviser for selection.

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 City Treasurer with audited financials and a statement certifying that the institution has reviewed the California Government Code, Section 53600 et seq. and the City's investment policy. The City Treasurer will conduct an annual review of the financial condition and registrations of such qualified bidders.

To the extent practicable, the City Treasurer shall endeavor to complete investment transactions using a competitive bid process whenever possible and select a financial institution as its investment accounts custodian. The City's Treasurer will determine which financial institutions are authorized to provide investment services to the Agency. It shall be the City's policy to purchase securities only from authorized institutions and firms.

Selection of broker/dealers used by an external investment adviser retained by the City will be at the function and the sole discretion of the investment adviser under its capacity as the City's Investment Manager. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

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.

SECTION 14. COLLATERALIZATION OF DEPOSITORY SERVICES

Public deposits shall only be made in qualified public depositories as established by California law. In selecting depositories pursuant to the Code, Section 53600, et seq., the credit worthiness, financial stability, and financial history of the institution, as well as the cost and scope of services and interest rates offered shall be considered. No funds will be deposited in an institution unless that institution has been evaluated by a nationally recognized independent rating service as satisfactory or better.

Under the provisions of the California Government Code, banks and savings and loan associations must secure public funds deposits with eligible securities having a market value of 110% of the total amount of the deposits. State law also allows as an eligible security, first trust deeds having a value of one hundred fifty percent (150%) of the total amount of the deposits. A third class of collateral is letters of credit drawn on the Federal Home Loan Bank (FHLB).

Deposits of \$250,000 or less which are insured pursuant to federal law by the Federal Deposit Insurance Corporation (FDIC), or the National Credit Union Administration (NCUA) may be excluded from the independent rating service evaluation requirement.

The City Treasurer may waive, at his/her discretion, security for that portion of a deposit which is insured pursuant to federal law. Currently, the first two hundred, fifty thousand dollars (\$250,000) of a deposit is federally insured. It is to the City's advantage to waive this collateral requirement for the first \$250,000 to achieve a higher interest rate.

SECTION 15. INVESTMENT MATURITY

State law (Government Code Section 53601) provides that city treasurers may not invest funds in securities which have a term remaining to maturity in excess of five years from the date of investment, unless the City Council "...grants express authority to make that investment either specifically or as a part of an investment program approved by the City Council no less than three months prior to the investment."

It shall be the duty of the City Treasurer, to the extent possible; to match the investments with anticipated cash flow requirements. The maximum maturity will be five years from settlement date.

SECTION 16. PORTFOLIO ADJUSTMENTS

The diversification requirements set forth in Section 8 relating to the maximum allowable percentage for a particular issuer or investment type shall apply at the time of purchase. Due to

fluctuations in the aggregate invested balance, these maximum percentages may be exceeded from time to time and shall not require liquidation to realign the portfolio. However, consideration should be given to this matter when future purchases are made and the Treasurer shall consider rebalancing the portfolio after evaluating the expected length of time that it will be imbalanced.

The credit rating requirements set forth in Section 8 shall apply at the time of purchase. Should the credit rating of a security owned by the City be downgraded to a level below that required by this Investment Policy, the City will review the credit situation and determine if such securities should be sold or retained in the portfolio based upon its remaining term to maturity, the credit outlook for the issuer, and other relevant facts and circumstances. If the decision is made to retain a downgraded security, it will be closely monitored by the City and reported on quarterly to the Investment Committee.

Should any investment fall out of compliance with any other guidelines of this policy after its purchase, the City will review the situation and determine if such securities should be sold or retained in the portfolio based upon its remaining term to maturity, the credit outlook for the issuer, and other relevant facts and circumstances. If the decision is made to retain such a security, it will be closely monitored by the City and reported on quarterly to the Investment Committee.

SECTION 17. PERFORMANCE STANDARD

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues through a Cashflow model, thus ensuring the investment of monies to the fullest extent possible, including the estimated float for the Active Account and the Payroll Account. The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments.

The City Treasurer shall monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s). The City Treasurer shall select an appropriate, readily available index to use as a market benchmark. Benchmarks may change over time based on changes in market

conditions and/or cash flow requirements.

In order to assist in the evaluation of the Portfolio's performance, the City will use performance benchmarks. The use of benchmarks will allow the City to measure its returns against other investors in the same markets. A benchmark should not be chosen which would induce the individual making the investment to take on undue risk in order to outperform the benchmark.

SECTION 18. REPORTING

Monthly transaction reports will be submitted by the City Treasurer to the City Council in accordance with California Government Code Section 53607 and Fullerton Municipal Code Section 2.44.010.

The Treasurer shall submit on a quarterly basis a report to the City Council showing the type of investment, issuer, date of maturity, amount of deposit, current market value for all securities, rate of interest, interest earned, and such other information as may be required by the City Council.

SECTION 19. DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived from California Government Code, Sections 41006 for City Treasurers and 53600 *et seq.* The City Council is responsible for the management of the City's funds, including the administration of this investment policy. Management responsibility for the cash management of the City's temporary idle funds is hereby delegated to the City Treasurer.

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

The City may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of the overall portfolio's return and the cash flow requirements of the City.

SECTION 20. INVESTMENT ADVISORY COMMITTEE

To strengthen and implement sound investment strategies and provide control over the City's investments, an Investment Advisory Committee has been established to review and make recommendations on investment policy, review investment portfolio, and provide feedback on investment strategy of the City of Fullerton and the Fullerton Successor Agency. The Committee is comprised of the following members:

1. One City Council member (appointed by Council).
2. Five Fullerton citizens, appointed by the City Council, with professional financial

management experience in either financial planning, commercial banking, investment banking, or a related field. The citizens chosen by City Council to serve on the Investment Advisory Committee shall serve four-year terms, and shall be removable from the Committee at the will of the Council.

The Committee shall meet quarterly to:

- a. Review the City's investments which are currently held.
- b. Recommend modifications of this Investment Policy to the City Council.
- c. Develop and carry out the ongoing investment strategy in accordance with this Investment Policy.

All Investment Committee meetings will be public meetings and duly noticed, with a posted agenda and action minutes will be taken and available for public review.

The Committee shall not inhibit the daily operations performed by the City Treasurer, but rather provide guidelines, input and parameters for the investment of the City's portfolio. Individual trades need not be approved by the Committee provided they fall within the scope of this Investment Policy.

SECTION 21. INVESTMENT POLICY ADOPTION

The City of Fullerton's Investment Policy shall be submitted to the City Council annually for review and approval of any modifications. The basic premise underlying this Investment Policy is to ensure that idle funds are safe, available when needed, and invested at the highest yield possible after safety and liquidity standards are met.

SECTION 22. GLOSSARY

Because this policy is to be available to the public as well as the governing body, it is important that a glossary of related terminology be part of the policy. Please refer to Attachment A for the terms.

ATTACHMENT A
GLOSSARY OF INVESTMENT TERMS

Accrued Interest. Interest earned but which has not yet been paid or received.

Agency. See "Federal Agency Securities."

Ask Price. Price at which a broker/dealer offers to sell a security to an investor. Also known as "offered price."

Asset Backed Securities (ABS). A fixed-income security backed by notes or receivables against assets other than real estate. Generally issued by special purpose companies that "own" the assets and issue the ABS. Examples include securities backed by auto loans, credit card receivables, home equity loans, manufactured housing loans, farm equipment loans and aircraft leases.

Average Life. The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

B of A Merrill Lynch 1-3 Year U.S. Corporate/Government Bond Index AA or Better. This index includes publicly issued U.S. Treasury debt, U.S. government agency debt, taxable debt issued by U.S. states and territories and their political subdivisions, debt issued by U.S. and non-U.S. corporations, non-U.S. government debt and supranational debt. This index will be utilized as a performance benchmark for the City's core portfolio.

Bankers' Acceptance (BA's). A draft or bill of exchange drawn upon and accepted by a bank. Frequently used to finance shipping of international goods. Used as a short-term credit instrument, bankers' acceptances are traded at a discount from face value as a money market instrument in the secondary market on the basis of the credit quality of the guaranteeing bank.

Basis Point. One hundredth of one percent, or 0.01%. Thus 1% equals 100 basis points.

Bearer Security. A security whose ownership is determined by the holder of the physical security. Typically, there is no registration on the issuer's books. Title to bearer securities is transferred by delivery of the physical security or certificate. Also known as "physical securities."

Benchmark Bills: In November 1999, FNMA introduced its Benchmark Bills program, a short-term debt securities issuance program to supplement its existing discount note program. The program includes a schedule of larger, weekly issues in three- and six-month maturities and biweekly issues in one-year for Benchmark Bills. Each issue is brought to market via a Dutch (single price) auction. FNMA conducts a weekly auction for each Benchmark Bill maturity and accepts both competitive and non-competitive bids through a web based auction system. This program is in addition to the variety of other discount note maturities, with rates posted on a daily basis, which FNMA offers. FNMA's Benchmark Bills are unsecured general obligations that are issued in book- entry form through the Federal Reserve Banks. There are no periodic payments of interest on Benchmark Bills, which are sold at a discount from the principal amount and payable at par at maturity. Issues under the Benchmark program constitute the same credit standing as other FNMA discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

Benchmark Notes/Bonds: Benchmark Notes and Bonds are a series of FNMA "bullet" maturities (non-callable) issued according to a pre-announced calendar. Under its Benchmark Notes/Bonds

program, 2, 3, 5, 10 and 30- year maturities are issued each quarter. Each Benchmark Notes new issue has a minimum size of \$4 billion, 30- year new issues having a minimum size of \$1 billion, with re-openings based on investor demand to further enhance liquidity. The amount of non-callable issuance has allowed FNMA to build a yield curve in Benchmark Notes and Bonds in maturities ranging from 2 to 30 years. The liquidity emanating from these large size issues has facilitated favorable financing opportunities through the development of a liquid overnight and term repo market. Issues under the Benchmark program constitute the same credit standing as other FNMA issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Benchmark. A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance and duration of the actual portfolio's investments.

Bid Price. Price at which a broker/dealer offers to purchase a security from an investor.

Bond Market Association (BMA). The bond market trade association representing the largest securities markets in the world. In addition to publishing a Master Repurchase Agreement, widely accepted as the industry standard document for Repurchase Agreements, the BMA also recommends bond market closures and early closes due to holidays.

Bond. Financial obligation for which the issuer promises to pay the bondholder (the purchaser or owner of the bond) a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book Entry Securities. Securities that are recorded in a customer's account electronically through one of the financial markets electronic delivery and custody systems, such as the Fed Securities wire, DTC and PTC (as opposed to bearer or physical securities). The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors' concerns about the certificates themselves. The vast majority of securities are now book entry securities.

Book Value. The value at which a debt security is reflected on the holder's records at any point in time. Book value is also called "amortized cost" as it represents the original cost of an investment adjusted for amortization of premium or accretion of discount. Also called "carrying value." Book value can vary over time as an investment approaches maturity and differs from "market value" in that it is not affected by changes in market interest rates.

Broker/Dealer. A person or firm transacting securities business with customers. A "broker" acts as an agent between buyers and sellers, and receives a commission for these services. A "dealer" buys and sells financial assets from its own portfolio. A dealer takes risk by owning inventory of securities, whereas a broker merely matches up buyers and sellers. See also "Primary Dealer."

Bullet Notes/Bonds. Notes or bonds that have a single maturity date and are non-callable.

California Local Agency Bonds: Bonds that are issued by a California county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

Call Date. Date at which a call option may be or is exercised.

Call Option. The right, but not the obligation, of an issuer of a security to redeem a security at a specified value and at a specified date or dates prior to its stated maturity date. Most fixed-income calls are a par, but can be at any previously established price. Securities issued with a call provision typically carry a higher yield than similar securities issued without a call feature. There are three primary types of call options (1) European - one-time calls, (2) Bermudan - periodically on a predetermined schedule (quarterly, semi-annual, annual), and (3) American - continuously callable at any time on or after the call date. There is usually a notice period of at least 5 business days prior to a call date.

Callable Bonds/Notes. Securities, which contain an imbedded call option giving the issuer, the right to redeem the securities prior to maturity at a predetermined price and time.

Certificate of Deposit (CD). Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity). Can be as long as 10 years to maturity, but most CDs purchased by public agencies are one year and under.

Collateral. Investment securities or other property that a borrower pledges to secure repayment of a loan, secure deposits of public monies, or provide security for a repurchase agreement.

Collateralization. Process by which a borrower pledges securities, property, or other deposits for securing the repayment of a loan and/or security.

Collateralized Mortgage Obligation (CMO). A security that pools together mortgages and separates them into short, medium, and long-term positions (called tranches). Tranches are set up to pay different rates of interest depending upon their maturity. Interest payments are usually paid monthly. In "plain vanilla" CMOs, principal is not paid on a tranche until all shorter tranches have been paid off. This system provides interest and principal in a more predictable manner. A single pool of mortgages can be carved up into numerous tranches each with its own payment and risk characteristics.

Commercial Paper. Short term unsecured promissory note issued by a company or financial institution. Issued at a discount and matures for par or face value. Usually a maximum maturity of 270 days, and given a short-term debt rating by one or more NRSROs.

Convexity. A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Corporate Note. A debt instrument issued by a corporation with a maturity of greater than one year and less than ten years.

Counterparty. The other party in a two party financial transaction. "Counterparty risk" refers to the risk that the other party, to a transaction, will fail in its related obligations. For example, the bank or broker/dealer in a repurchase agreement.

Coupon Rate. Annual rate of interest on a debt security, expressed as a percentage of the bond's face value.

Current Yield. Annual rate of return on a bond based on its price. Calculated as (coupon rate /price), but does not accurately reflect a bond's true yield level.

Custody. Safekeeping services offered by a bank, financial institution or trust company, referred to as the "custodian." Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement and market values.

Dealer. A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Delivery Versus Payment (DVP). Settlement procedure in which securities are delivered versus payment of cash, but only after cash has been received. Most security transactions, including those through the Fed Securities Wire system and DTC, are done DVP as a protection for both the buyer and seller of securities.

Depository Trust Company (DTC). A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of certificates. A member of the Federal Reserve System and owned mostly by the New York Stock Exchange, the Depository Trust Company uses computerized debit and credit entries. Most corporate securities, commercial paper, CDs and BAs clear through DTC.

Derivatives. For hedging purposes, common derivatives are options, futures, swaps and swaptions. All Collateralized Mortgage Obligations (“CMOs”) are derivatives. (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

Derivative Security. Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

Designated Bond. FFCB’s regularly issued, liquid, non-callable securities that generally have a 2 or 3 year original maturity. New issues of Designated Bonds are \$1 billion or larger. Re-openings of existing Designated Bond issues are generally a minimum of \$100 million. Designated Bonds are offered through a syndicate of two to six dealers. Twice each month the Funding Corporation announces its intention to issue a new Designated Bond, reopen an existing issue, or to not issue or reopen a Designated Bond. Issues under the Designated Bond program constitute the same credit standing as other FFCB issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Discount Notes. Unsecured general obligations issued by Federal Agencies at a discount. Discount notes mature at par and can range in maturity from overnight to one year. Very large primary (new issue) and secondary markets.

Discount Rate. Rate charged by the system of Federal Reserve Banks on overnight loans to member banks. Changes to this rate are administered by the Federal Reserve and closely mirror changes to the “fed funds rate.”

Discount Securities. Non-interest bearing money market instruments that are issued at discount and redeemed at maturity for full face value. Examples include: U.S. Treasury Bills, Federal Agency Discount Notes, Bankers' Acceptances and Commercial Paper.

Discount. The amount by which a bond or other financial instrument sells below its face value. See also "Premium."

Diversification. Dividing investment funds among a variety of security types, maturities, industries and issuers offering potentially independent returns.

Dollar Price. A bond’s cost expressed as a percentage of its face value. For example, a bond quoted at a dollar price of 95 ½, would have a principal cost of \$955 per \$1,000 of face value.

Duff & Phelps. One of several NRSROs that provide credit ratings on corporate and bank debt issues.

Duration. The weighted average maturity of a security's or portfolio's cash flows, where the present values of the cash flows serve as the weights. The greater the duration of a security/portfolio, the greater its percentage price volatility with respect to changes in interest rates. Used as a measure of risk and a key tool for managing a portfolio versus a benchmark and for hedging risk. There are also different kinds of duration used for different purposes (e.g. MacAuley Duration, Modified Duration).

Fannie Mae. See "Federal National Mortgage Association."

Fed Money Wire. A computerized communications system that connects the Federal Reserve System with its member banks, certain U. S. Treasury offices, and the Washington D.C. office of the Commodity Credit Corporation. The Fed Money Wire is the book entry system used to transfer cash balances between banks for themselves and for customer accounts.

Fed Securities Wire. A computerized communications system that facilitates book entry transfer of securities between banks, brokers and customer accounts, used primarily for settlement of U.S. Treasury and Federal Agency securities.

Fed. See "Federal Reserve System."

Federal Agency Security. A debt instrument issued by one of the Federal Agencies. Federal Agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

Federal Agency. Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets. The largest Federal Agencies are GNMA, FNMA, FHLMC, FHLB, FFCB, SLMA, and TVA.

Federal Deposit Insurance Corporation (FDIC). Federal agency that insures deposits at commercial banks, currently to a limit of \$250,000 per depositor per bank.

Federal Farm Credit Bank (FFCB). One of the large Federal Agencies. A government sponsored enterprise (GSE) system that is a network of cooperatively-owned lending institutions that provides credit services to farmers, agricultural cooperatives and rural utilities. The FFCBs act as financial intermediaries that borrow money in the capital markets and use the proceeds to make loans and provide other assistance to farmers and farm-affiliated businesses. Consists of the consolidated operations of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks. Frequent issuer of discount notes, agency notes and callable agency securities. FFCB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and agricultural industry. Also issues notes under its "designated note" program.

Federal Funds (Fed Funds). Funds placed in Federal Reserve Banks by depository institutions in excess of current reserve requirements, and frequently loaned or borrowed on an overnight basis between depository institutions.

Federal Funds Rate (Fed Funds Rate). The interest rate charged by a depository institution lending Federal Funds to another depository institution. The Federal Reserve influences this rate

by establishing a "target" Fed Funds rate associated with the Fed's management of monetary policy.

Federal Home Loan Bank System (FHLB). One of the large Federal Agencies. A government sponsored enterprise (GSE) system, consisting of wholesale banks (currently twelve district banks) owned by their member banks, which provides correspondent banking services and credit to various financial institutions, financed by the issuance of securities. The principal purpose of the FHLB is to add liquidity to the mortgage markets. Although FHLB does not directly fund mortgages, it provides a stable supply of credit to thrift institutions that make new mortgage loans. FHLB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its "global note" and "TAP" programs.

Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac"). One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages and participation interests financed by the sale of debt and guaranteed mortgage backed securities. FHLMC debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "reference note" program.

Federal National Mortgage Association (FNMA or "Fannie Mae"). One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "benchmark note" program.

Federal Reserve Bank. One of the 12 distinct banks of the Federal Reserve System.

Federal Reserve System (the Fed). The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Fed Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven-member Board of Governors known as the "Federal Reserve Board" and headed by its Chairman.

Financial Industry Regulatory Authority, Inc (FINRA). A private corporation that acts as a self-regulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD). Though sometimes mistaken for a government agency, it is a non-governmental organization that performs financial regulation of member brokerage firms and exchange markets. The government also has a regulatory arm for investments, the Securities and Exchange Commission.

Fiscal Agent/Paying Agent. A bank or trust company that acts, under a trust agreement with a corporation or municipality, in the capacity of general treasurer. The agent performs such duties

as making coupon payments, paying rents, redeeming bonds, and handling taxes relating to the issuance of bonds.

Fitch Investors Service, Inc. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Floating Rate Security (FRN or “floater”). A bond with an interest rate that is adjusted according to changes in an interest rate or index. Differs from variable-rate debt in that the changes to the rate take place immediately when the index changes, rather than on a predetermined schedule. See also “Variable Rate Security.”

Freddie Mac. See "Federal Home Loan Mortgage Corporation".

Ginnie Mae. See "Government National Mortgage Association".

Global Notes: Notes designed to qualify for immediate trading in both the domestic U.S. capital market and in foreign markets around the globe. Usually large issues that are sold to investors worldwide and therefore have excellent liquidity. Despite their global sales, global notes sold in the U.S. are typically denominated in U.S. dollars.

Government National Mortgage Association (GNMA or "Ginnie Mae"). One of the large Federal Agencies. Government-owned Federal Agency that acquires, packages, and resells mortgages and mortgage purchase commitments in the form of mortgage-backed securities. Largest issuer of mortgage pass-through securities. GNMA debt is guaranteed by the full faith and credit of the U.S. government (one of the few agencies that is actually full faith and credit of the U.S.).

Government Securities. An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, Bonds, and SLGS."

Government Sponsored Enterprise (GSE). Privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over U.S. Treasuries. Some consider GSEs to be stealth recipients of corporate welfare. Examples of GSEs include: FHLB, FHLMC, FNMA and SLMA.

Government Sponsored Enterprise Security. A security issued by a Government Sponsored Enterprise. Considered Federal Agency Securities.

Index. A compilation of statistical data that tracks changes in the economy or in financial markets.

Interest-Only (IO) STRIP. A security based solely on the interest payments from the bond. After the principal has been repaid, interest payments stop and the value of the security falls to nothing. Therefore, IOs are considered risky investments. Usually associated with mortgage-backed securities.

Internal Controls. An internal control structure ensures that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of

costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

1. **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. **Separation of transaction authority from accounting and record keeping** - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

Inverse Floater. A floating rate security structured in such a way that it reacts inversely to the direction of interest rates. Considered risky as their value moves in the opposite direction of normal fixed-income investments and whose interest rate can fall to zero.

Investment Advisor. A company that provides professional advice managing portfolios, investment recommendations and/or research in exchange for a management fee.

Investment Adviser Act of 1940. Federal legislation that sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment Grade. Bonds considered suitable for preservation of invested capital; bonds rated a minimum of Baa3 by Moody's, BBB- by Standard & Poor's, or BBB- by Fitch. Although "BBB" rated bonds are considered investment grade, most public agencies cannot invest in securities rated below "A."

Liquidity. Relative ease of converting an asset into cash without significant loss of value. Also, a relative measure of cash and near-cash items in a portfolio of assets. Also, a term describing

the marketability of money market security correlating to the narrowness of the spread between the bid and ask prices.

Local Agency Investment Fund (LAIF): A voluntary investment fund open to state and local government entities and certain non-profit organizations in California in which organization pools their funds for investment. LAIF is managed by the State Treasurer's Office.

Long-Term Core Investment Program. Funds that are not needed within a one year period.

Market Value. The fair market value of a security or commodity. The price at which a willing buyer and seller would pay for a security.

Mark-to-market. Adjusting the value of an asset to its market value, reflecting in the process unrealized gains or losses.

Master Repurchase Agreement. A widely accepted standard agreement form published by the Bond Market Association (BMA) that is used to govern and document Repurchase Agreements and protects the interest of parties in a repo transaction.

Maturity Date. Date on which principal payment of a financial obligation is to be paid.

Medium Term Notes (MTN's). Used frequently to refer to corporate notes of medium maturity (5-years and under). Technically, any debt security issued by a corporate or depository institution with a maturity from 1 to 10 years and issued under an MTN shelf registration. Usually issued in smaller issues with varying coupons and maturities, and underwritten by a variety of broker/dealers (as opposed to large corporate deals issued and underwritten all at once in large size and with a fixed coupon and maturity).

Money Market. The market in which short-term debt instruments (bills, commercial paper, bankers' acceptance, etc.) are issued and traded.

Money Market Mutual Fund (MMF). A type of mutual fund that invests solely in money market instruments, such as: U.S. Treasury bills, commercial paper, bankers' acceptances, and repurchase agreements. Money market mutual funds are registered with the SEC under the Investment Company Act of 1940 and are subject "rule 2a-7" which significantly limits average maturity and credit quality of holdings. MMF's are managed to maintain a stable net asset value (NAV) of \$1.00. Many MMFs carry ratings by a NRSRO.

Moody's Investors Service. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Mortgage Backed Securities (MBS). Mortgage-backed securities represent an ownership interest in a pool of mortgage loans made by financial institutions, such as savings and loans, commercial banks, or mortgage companies, to finance the borrower's purchase of a home or other real estate. The majority of MBS are issued and/or guaranteed by GNMA, FNMA and FHLMC. There are a variety of MBS structures, some of which can be very risky and complicated. All MBS have reinvestment risk as actual principal and interest payments are dependent on the payment of the underlying mortgages which can be prepaid by mortgage holders to refinance and lower rates or simply because the underlying property was sold.

Mortgage Pass-Through Securities. A pool of residential mortgage loans with the monthly interest and principal distributed to investors on a pro-rata basis. Largest issuer is GNMA.

Municipal Note/Bond. A debt instrument issued by a state or local government unit or public agency. The vast majority of municipals are exempt from state and federal income tax, although some non-qualified issues are taxable.

Mutual Fund. Portfolio of securities professionally managed by a registered investment company that issues shares to investors. Many different types of mutual funds exist (bond, equity, money fund); all except money market funds operate on a variable net asset value (NAV).

Negotiable Certificate of Deposit (Negotiable CD). Large denomination CDs (\$100,000 and larger) that are issued in bearer form and can be traded in the secondary market.

Net Asset Value. The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.)

$$[(\text{Total assets}) - (\text{Liabilities})] / (\text{Number of shares outstanding})$$

NRSRO. A "Nationally Recognized Statistical Rating Organization." A designated rating organization that the SEC has deemed a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of a NRSRO may be used for the regulatory purposes of rating. Includes Moody's, S&P, Fitch and Duff & Phelps.

Offered Price. See also "Ask Price."

Open Market Operations. Federal Reserve monetary policy tactic entailing the purchase or sale of government securities in the open market by the Federal Reserve System from and to primary dealers in order to influence the money supply, credit conditions, and interest rates.

Par Value. Face value, stated value or maturity value of a security.

Physical Delivery. Delivery of readily available underlying assets at contract maturity.

Portfolio. Collection of securities and investments held by an investor.

Premium. The amount by which a bond or other financial instrument sells above its face value. See also "Discount."

Primary Dealer. Any of a group of designated government securities dealers designated by to the Federal Reserve Bank of New York. Primary dealers can buy and sell government securities directly with the Fed. Primary dealers also submit daily reports of market activity and security positions held to the Fed and are subject to its informal oversight. Primary dealers are considered the largest players in the U.S. Treasury securities market.

Prime Paper. Commercial paper of high quality. Highest rated paper is A-1+/A-1 by S&P and P-1 by Moody's.

Principal. Face value of a financial instrument on which interest accrues. May be less than par value if some principal has been repaid or retired. For a transaction, principal is par value multiplied by price and includes any premium or discount.

Prudent Investor Standard. Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill,

prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. More stringent than the “prudent person” standard as it implies a level of knowledge commensurate with the responsibility at hand.

Range Note. A type of structured note that accrues interest daily at a set coupon rate that is tied to an index. Most range notes have two coupon levels; a higher accrual rate for the period the index is within a designated range, the lower accrual rate for the period that the index falls outside the designated range. This lower rate may be zero and may result in zero earnings.

Rate of Return. Amount of income received from an investment, expressed as a percentage of the amount invested.

Realized Gains (Losses). The difference between the sale price of an investment and its book value. Gains/losses are “realized” when the security is actually sold, as compared to “unrealized” gains/losses which are based on current market value. See “Unrealized Gains (Losses).”

Reference Bills: FHLMC’s short-term debt program created to supplement its existing discount note program by offering issues from one month through one year, auctioned on a weekly or on an alternating four-week basis (depending upon maturity) offered in sizeable volumes (\$1 billion and up) on a cycle of regular, standardized issuance. Globally sponsored and distributed, Reference Bill issues are intended to encourage active trading and market-making and facilitate the development of a term repo market. The program was designed to offer predictable supply, pricing transparency and liquidity, thereby providing alternatives to U.S. Treasury bills. FHLMC’s Reference Bills are unsecured general corporate obligations. This program supplements the corporation’s existing discount note program. Issues under the Reference program constitute the same credit standing as other FHLMC discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

Reference Notes: FHLMC’s intermediate-term debt program with issuances of 2, 3, 5, 10 and 30-year maturities. Initial issuances range from \$2 - \$6 billion with re-openings ranging \$1 - \$4 billion. The notes are high-quality bullet structures securities that pay interest semiannually. Issues under the Reference program constitute the same credit standing as other FHLMC notes; they simply add organization and liquidity to the intermediate- and long-term Agency market.

Repurchase Agreement (Repo). A short-term investment vehicle where an investor agrees to buy securities from a counterparty and simultaneously agrees to resell the securities back to the counterparty at an agreed upon time and for an agreed upon price. The difference between the purchase price and the sale price represents interest earned on the agreement. In effect, it represents a collateralized loan to the investor, where the securities are the collateral. Can be DVP, where securities are delivered to the investor’s custodial bank, or “tri-party” where the securities are delivered to a third party intermediary. Any type of security can be used as “collateral,” but only some types provide the investor with special bankruptcy protection under the law. Repos should be undertaken only when an appropriate BMA approved master repurchase agreement is in place.

Reverse Repurchase Agreement (Reverse Repo). A repo from the point of view of the original seller of securities. Used by dealers to finance their inventory of securities by essentially borrowing at short-term rates. Can also be used to leverage a portfolio and in this sense, can be considered risky if used improperly.

Safekeeping. Service offered for a fee, usually by financial institutions, for the holding of securities and other valuables. Safekeeping is a component of custody services.

Secondary Market. Markets for the purchase and sale of any previously issued financial instrument.

Securities Lending. An arrangement between an investor and a custody bank that allows the custody bank to "loan" the investor's investment holdings, reinvest the proceeds in permitted investments, and share any profits with the investor. Should be governed by a securities lending agreement. Can increase the risk of a portfolio in that the investor takes on the default risk on the reinvestment at the discretion of the custodian.

Sinking Fund. A separate accumulation of cash or investments (including earnings on investments) in a fund in accordance with the terms of a trust agreement or indenture, funded by periodic deposits by the issuer (or other entity responsible for debt service), for the purpose of assuring timely availability of monies for payment of debt service. Usually used in connection with term bonds.

Spread. The difference between the price of a security and similar maturity U.S. Treasury investments, expressed in percentage terms or basis points. A spread can also be the absolute difference in yield between two securities. The securities can be in different markets or within the same securities market between different credits, sectors, or other relevant factors.

Standard & Poor's. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

STRIPS (Separate Trading of Registered Interest and Principal of Securities). Acronym applied to U.S. Treasury securities that have had their coupons and principal repayments separated into individual zero-coupon Treasury securities. The same technique and "strips" description can be applied to non-Treasury securities (e.g. FNMA strips).

Structured Notes. Notes that have imbedded into their structure options such as step-up coupons or derivative-based returns.

Supranational Debt. The debt of an international or multi-lateral financial agency used to finance economic and infrastructure development, environmental protection, poverty reduction and renewable energy around the world. Supranational debt is typically rated AAA by most NRSRO's as these entities are well-capitalized, have significant capital commitments from a diverse capital base, conservative lending and risk management practices and strong supervision.

Swap. Trading one asset for another.

TAP Notes: Federal Agency notes issued under the FHLB TAP program. Launched in 6/99 as a refinement to the FHLB bullet bond auction process. In a break from the FHLB's traditional practice of bringing numerous small issues to market with similar maturities, the TAP Issue Program uses the four most common maturities and reopens them up regularly through a competitive auction. These maturities (2, 3, 5 and 10 year) will remain open for the calendar quarter, after which they will be closed and a new series of TAP issues will be opened to replace them. This reduces the number of separate bullet bonds issued, but generates enhanced awareness and liquidity in the marketplace through increased issue size and secondary market volume.

Tennessee Valley Authority (TVA). One of the large Federal Agencies. A wholly owned corporation of the United States government that was established in 1933 to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. Power operations are separated from non-power operations. TVA securities represent obligations of TVA, payable solely from TVA's net power proceeds, and are neither obligations of nor guaranteed by the United States. TVA is currently authorized to issue debt up to \$30 billion. Under this authorization, TVA may also obtain advances from the U.S. Treasury of up to \$150 million. Frequent issuer of discount notes, agency notes and callable agency securities.

Total Return. Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

Treasuries. Collective term used to describe debt instruments backed by the U.S. Government and issued through the U.S. Department of the Treasury. Includes Treasury bills, Treasury notes, and Treasury bonds. Also a benchmark term used as a basis by which the yields of non-Treasury securities are compared (e.g., "trading at 50 basis points over Treasuries").

Treasury Bills (T-Bills). Short-term direct obligations of the United States Government issued with an original term of one year or less. Treasury bills are sold at a discount from face value and do not pay interest before maturity. The difference between the purchase price of the bill and the maturity value is the interest earned on the bill. Currently, the U.S. Treasury issues 4-week, 13-week and 26-week T-Bills

Treasury Bonds. Long-term interest-bearing debt securities backed by the U.S. Government and issued with maturities of ten years and longer by the U.S. Department of the Treasury. The Treasury stopped issuing Treasury Bonds in August 2001.

Treasury Notes. Intermediate interest-bearing debt securities backed by the U.S. Government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury. The Treasury currently issues 2-year, 5-year and 10-year Treasury Notes.

Trustee. A bank designated by an issuer of securities as the custodian of funds and official representative of bondholders. Trustees are appointed to insure compliance with the bond documents and to represent bondholders in enforcing their contract with the issuer.

Uniform Net Capital Rule. SEC regulation 15C3-1 that outlines the minimum net capital ratio (ratio of indebtedness to net liquid capital) of member firms and non-member broker/dealers.

Unrealized Gains (Losses). The difference between the market value of an investment and its book value. Gains/losses are "realized" when the security is actually sold, as compared to "unrealized" gains/losses which are based on current market value. See also "Realized Gains (Losses)."

Variable-Rate Security. A bond that bears interest at a rate that varies over time based on a specified schedule of adjustment (e.g., daily, weekly, monthly, semi-annually or annually). See also "Floating Rate Note."

Weighted Average Maturity (or just "Average Maturity"). The average maturity of all securities and investments of a portfolio, determined by multiplying the par or principal value of each security or investment by its maturity (days or years), summing the products, and dividing

the sum by the total principal value of the portfolio. A simple measure of risk of a fixed-income portfolio.

Weighted Average Maturity to Call. The average maturity of all securities and investments of a portfolio, adjusted to substitute the first call date per security for maturity date for those securities with call provisions.

Yield Curve. A graphic depiction of yields on like securities in relation to remaining maturities spread over a time line. The traditional yield curve depicts yields on U.S. Treasuries, although yield curves exist for Federal Agencies and various credit quality corporates as well. Yield curves can be positively sloped (normal) where longer-term investments have higher yields, or "inverted" (uncommon) where longer-term investments have lower yields than shorter ones.

Yield to Call (YTC). Same as "Yield to Maturity," except the return is measured to the first call date rather than the maturity date. Yield to call can be significantly higher or lower than a security's yield to maturity.

Yield to Maturity (YTM). Calculated return on an investment, assuming all cash flows from the security are reinvested at the same original yield. Can be higher or lower than the coupon rate depending on market rates and whether the security was purchased at a premium or discount. There are different conventions for calculating YTM for various types of securities.

Yield. There are numerous methods of yield determination. In this glossary, see also "Current Yield," "Yield Curve," "Yield to Call" and "Yield to Maturity."

PARS

PUBLIC AGENCY
RETIREMENT SERVICES



CITY OF FULLERTON

PARS 115 Trust – OPEB Prefunding Program & Pension Rate Stabilization
Plan Client Review

April 16, 2026

CONTACTS



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PFM Asset Management is a division of U.S. Bancorp Asset Management, Inc. See additional disclosures at the end of this presentation

PARS TRUST TEAM

As of December 31, 2025

Trust Administrator & Consultant*



- Serves as record-keeper, consultant, and central point of contact
- Sub-trust accounting
- Coordinates all agency services
- Monitors plan compliance (IRS/GASB/State Government Code)
- Processes contributions/disbursements
- Hands-on, dedicated support teams

40+ Years of Experience (1984-2026)	2,300+ Plans under Administration	1,100+ Public Agency Clients	550+ 115 Trust Clients	750K+ Plan Participants	\$10.8 B+ Assets under Administration
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* See important information regarding PARS in the Disclaimer page at the end of the presentation.

Trustee



- 5th largest commercial bank and one of the nation's largest trustees for Section 115 trusts
- Safeguard plan assets
- Oversight protection as plan fiduciary
- Custodian of assets

163 Years of Experience (1863-2026)	\$11.0T Assets under Administration
--	--

Investment Manager

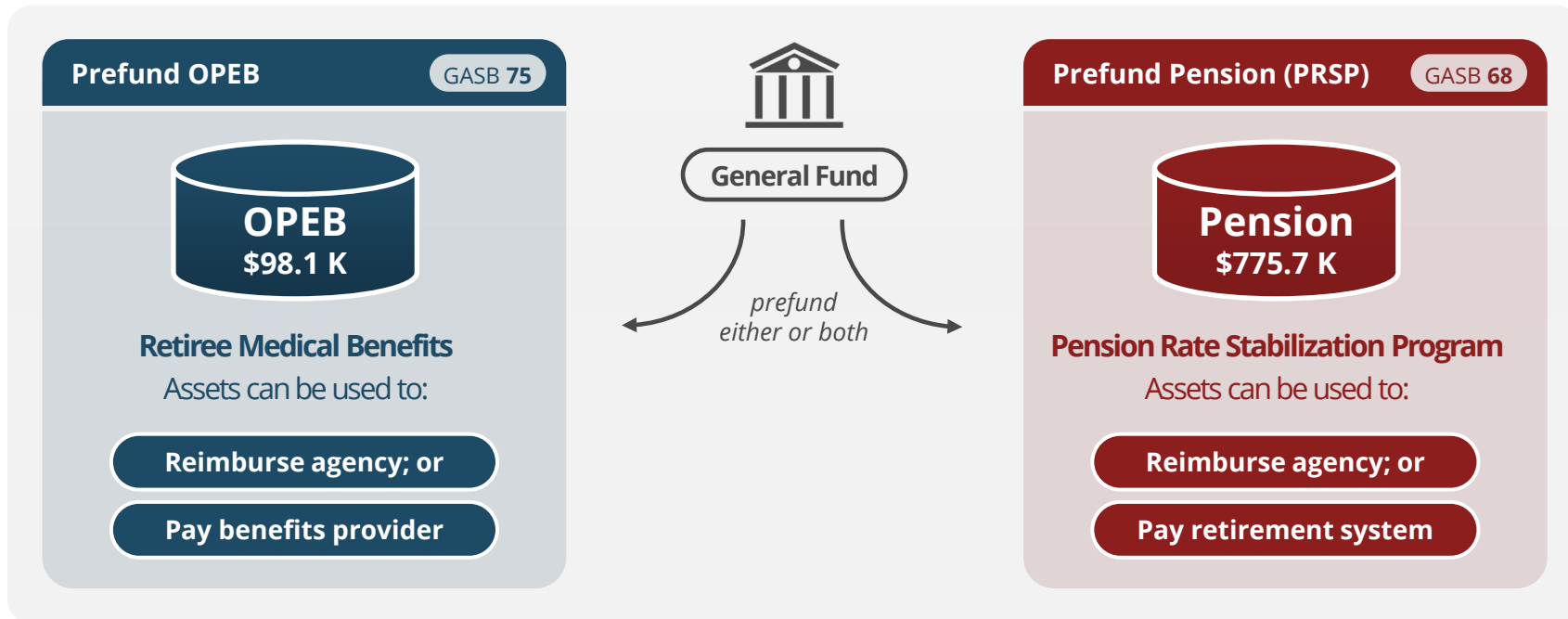


- A division of U.S. Bancorp Asset Management, Inc.
- Fixed income and multi asset portfolios
- Strategic Blend and Index platform options
- Customized portfolios (with minimum asset level)

41 Years of Investment Experience (As of 12/31/2025)	\$254.9B* Assets under Management & Advisement
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*Please see disclosures at the end of this presentation

PARS IRS-APPROVED SECTION 115 TRUST



Subaccounts

OPEB and pension assets are individually sub-accounted, and can be divided by dept., bargaining group, or cost center.



Financial Stability

Assets in the PARS Section 115 Combination Trust can be used to address unfunded liabilities.



Flexible Investing

Allows separate investment strategies for OPEB and pension subaccounts.



Anytime Access

Trust funds are available anytime; OPEB for OPEB and pension for pension.



Economies-of-Scale

OPEB and pension assets aggregate and reach lower fees on tiered schedule sooner – saving money!



No Set Up Cost or Minimums

No set-up costs, no minimum annual contribution amounts, and no fees until assets are added.

The

PARS PENSION RATE STABILIZATION PROGRAM

for prefunding pension obligations

WHY PREFUND PENSION OBLIGATIONS?

1. Complete Local Control over Assets

Agency has complete control over assets, including contributions, disbursements and the timing, amount, and risk tolerance level of investments

2. Pension Rate Smoothing Tool

Assets can be transferred to the retirement system at the Agency's direction, potentially reducing/eliminating large fluctuations in employer contribution amounts

3. Rainy Day Fund

Emergency source of funds when employer revenues are strained in difficult budgetary or economic times

4. Diversification

Allows for investment flexibility and offers the potential for assets to earn greater returns than the general fund; spread the risk vs. sending additional money to CalPERS

SUMMARY OF AGENCY'S PENSION PLAN

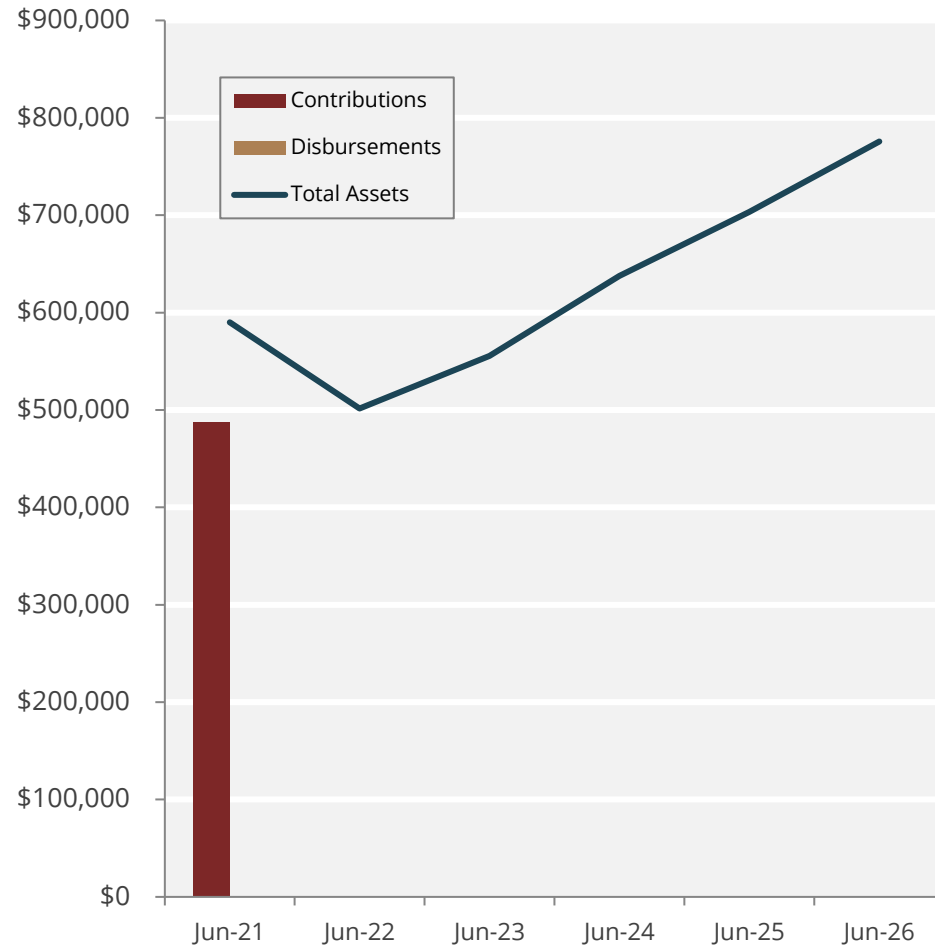
Plan Type:	IRC Section 115 Irrevocable Exclusive Benefit Trust
Trustee Approach:	Discretionary
Plan Effective Date:	October 20, 2015
Plan Administrator:	Interim Director of Administrative Services
Current Investment Strategy:	Balanced Strategic Blend
	*Prior to October 2024, was in Capital Appreciation Strategic Blend
	*Prior to February 2020, was in Capital Appreciation Index

AS OF FEBRUARY 28, 2026:

Initial Contribution:	August 2020: \$100,000
Additional Contributions:	\$387,000
Total Contributions:	\$487,000
Disbursements:	\$0
Net Investment Earnings:	\$288,675
Account Balance:	\$775,675

SUMMARY OF AGENCY'S PENSION PLAN

HISTORY OF CONTRIBUTIONS, DISBURSEMENTS, AND TOTAL ASSETS AS OF FEBRUARY 28, 2026 :



Year	Contributions	Disbursements	Total Assets
Jun-21*	\$487,000	\$0	\$589,967
Jun-22	\$0	\$0	\$501,509
Jun-23	\$0	\$0	\$555,438
Jun-24	\$0	\$0	\$637,739
Jun-25	\$0	\$0	\$703,277
Jun-26**	\$0	\$0	\$775,675

Plan Year Ending

*Plan Year Ending June 2021 is based on 11 months of activity.
 **Plan Year Ending June 2026 is based on 8 months of activity.



PENSION FUNDING STATUS

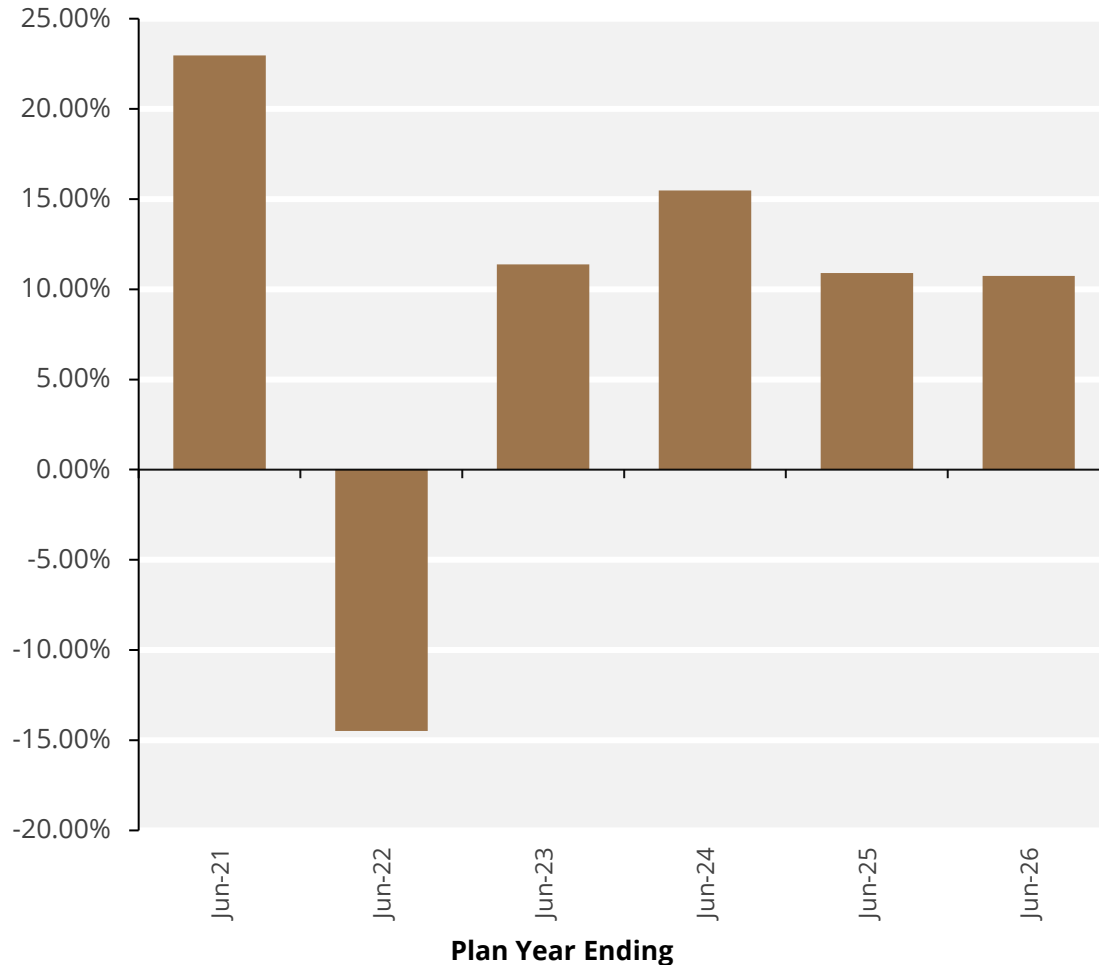
As of June 30, 2024, City of Fullerton’s CalPERS pension plan is funded as follows*:

Combined Miscellaneous & Safety Groups *	Valuation as of June 30, 2023	Valuation as of June 30, 2024	Change
Actuarial Liability	\$933.9 M	\$967.5 M	3.6% ↑
Assets	\$612.7 M	\$648.7 M	5.9% ↑
Unfunded Liability	\$321.2 M	\$318.9 M	0.7% ↓
Funded Ratio	65.6%	67.0%	2.2% ↑
Employer Contribution Amount	\$31.3 M (FY 24-25)	\$34.1 M (FY 25-26)	8.8% ↑
Employer Contribution Amount – Projected *	---	\$40.9 M (FY 31-32)	20.0% ↑

* Data through 2031-32 from Agency’s latest CalPERS actuarial valuation.

PENSION PLAN TOTAL RETURNS

AS OF FEBRUARY 28, 2026



Year	Returns
Jun-21*	22.96%
Jun-22	-14.49%
Jun-23	11.39%
Jun-24	15.48%
Jun-25	10.91%
Jun-26**	10.73%

Inception to Date (Annualized)
9.51%

*Plan Year Ending June 2021 is based on 11 months of activity.
**Plan Year Ending June 2026 is based on 8 months of activity.

Returns are net of the embedded fund fees and gross of trustee and trust administrator fees

Information as provided by US Bank, Trustee for PARS; Not FDIC Insured; No Bank Guarantee; May Lose Value. Past performance does not guarantee future results. Performance returns are impacted by agency plan activity and may not reflect the deduction of applicable fees, which could reduce returns. Information is deemed reliable but may be subject to change.

The advisor to the PARS portfolios is U.S. Bank, and PFM Asset Management serves as sub-advisor to U.S. Bank to manage these portfolios. Please see important additional disclosures to the PARS portfolios included in the individual strategy information at the end of this presentation.

The

PARS OPEB TRUST PROGRAM

for prefunding Other Post-Employment Benefits

WHY PREFUND OPEB?

1. Reduced Costs

Diversification of trust assets can result in a greater rate of return, which can lower your eventual OPEB costs

2. Improve your Discount Rate

Continuing with Pay-as-you-Go strategy requires future valuations to use 20 year municipal treasury rate as discount rate. Pre-funding allows for increase discount rate

3. GASB 75

Effective 2017-18, GASB 75 will require OPEB liabilities to be placed directly on your balance sheet similar to pension liabilities under GASB 68. Assets in an OPEB Trust can address your OPEB liabilities

4. Improve Credit Ratings

Agencies that pre-fund their employee benefit liabilities can have a positive impact on their credit ratings, which may lower long term borrowing costs

OPEB ACTUARIAL RESULTS

- We have received the actuarial report by Precision Actuarial Inc. dated November 17, 2025, with a Measurement Date as of June 30, 2024. In the table below, we have summarized the results.

Demographic Study	Measurement Date: June 30, 2023	Measurement Date: June 30, 2024
Actives	466	537
Retirees	187	156
Inactive employees entitled to but not yet receiving benefits	71	97
Total	724	790

OPEB ACTUARIAL RESULTS

	Measurement Date: June 30, 2023 Discount Rate: 3.86%	Measurement Date: June 30, 2024 Discount Rate: 4.09%
Total OPEB Liability (TOL) <i>Actuarial Accrued Liability (AAL)</i>	\$26,176,682	\$25,952,619
Fiduciary Net Position <i>Actuarial Value of Assets</i>	\$70,253	\$80,662*
Net OPEB Liability (NOL) <i>Unfunded Actuarial Accrued Liability (UAAL)</i>	\$26,106,429	\$25,871,957
Funded Ratio (%)	0.27%	0.31%
Actuarially Determined Contribution (ADC)	\$1,820,569 <i>for FY 2023-24</i>	\$2,482,270 <i>for FY 2025-26</i>
Annual Benefit Payments (Pay-as-you-Go)	\$971,873 <i>for FY 2023-24</i>	\$889,716 <i>for FY 2024-25</i>

*As of February 28, 2026, assets at \$98,109 (approx. 0.38% funded assuming no change in TOL).

Rule of thumb: For every one percent increase in the discount rate, the unfunded liability is lowered by 10-12%.

SUMMARY OF AGENCY'S OPEB PLAN

Plan Type:	IRC Section 115 Irrevocable Exclusive Benefit Trust
Trustee Approach:	Discretionary
Plan Effective Date:	October 20, 2015
Plan Administrator:	Interim Director of Administrative Services
Current Investment Strategy:	Balanced Strategic Blend

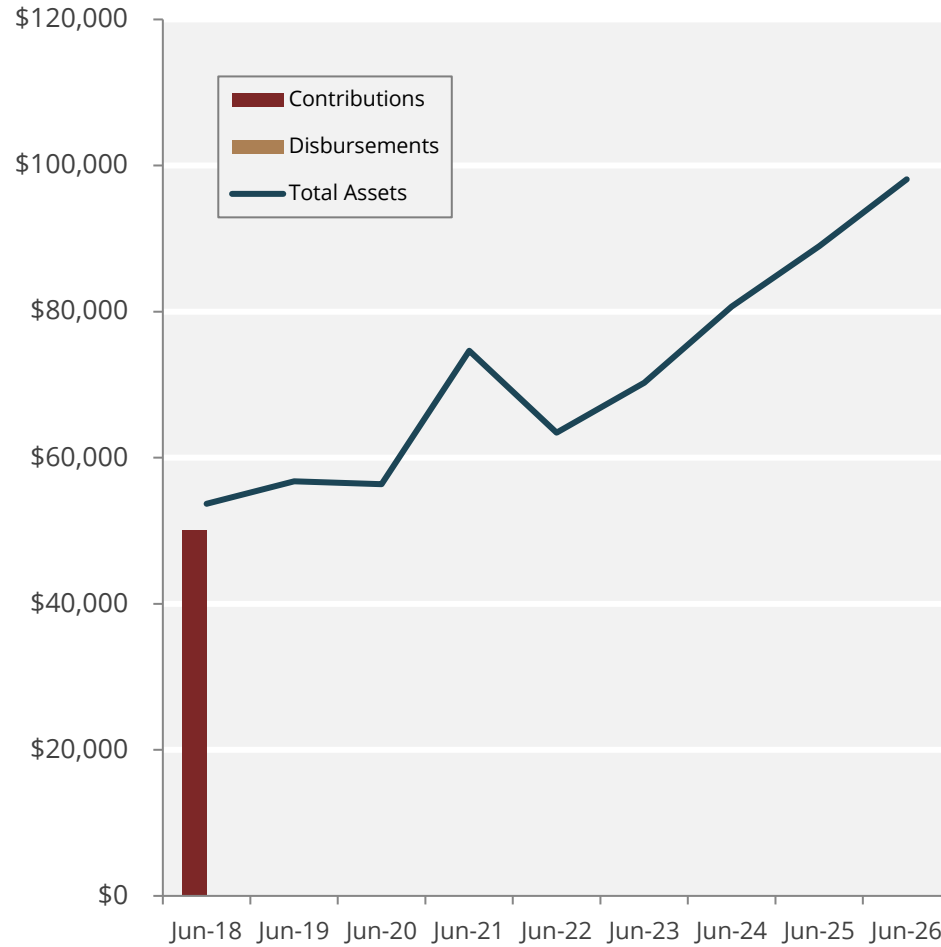
*Prior to October 2024, was in Capital Appreciation Strategic Blend
*Prior to February 2020, was in Capital Appreciation Index
*Prior to November 2015, was in Balanced Active

AS OF FEBRUARY 28, 2026:

Initial Contribution:	July 2017: \$50,000
Additional Contributions:	\$0
Total Contributions:	\$50,000
Disbursements:	\$0
Net Investment Earnings:	\$48,109
Account Balance:	\$98,109

SUMMARY OF AGENCY'S OPEB PLAN

HISTORY OF CONTRIBUTIONS, DISBURSEMENTS, AND TOTAL ASSETS AS OF FEBRUARY 28, 2026 :



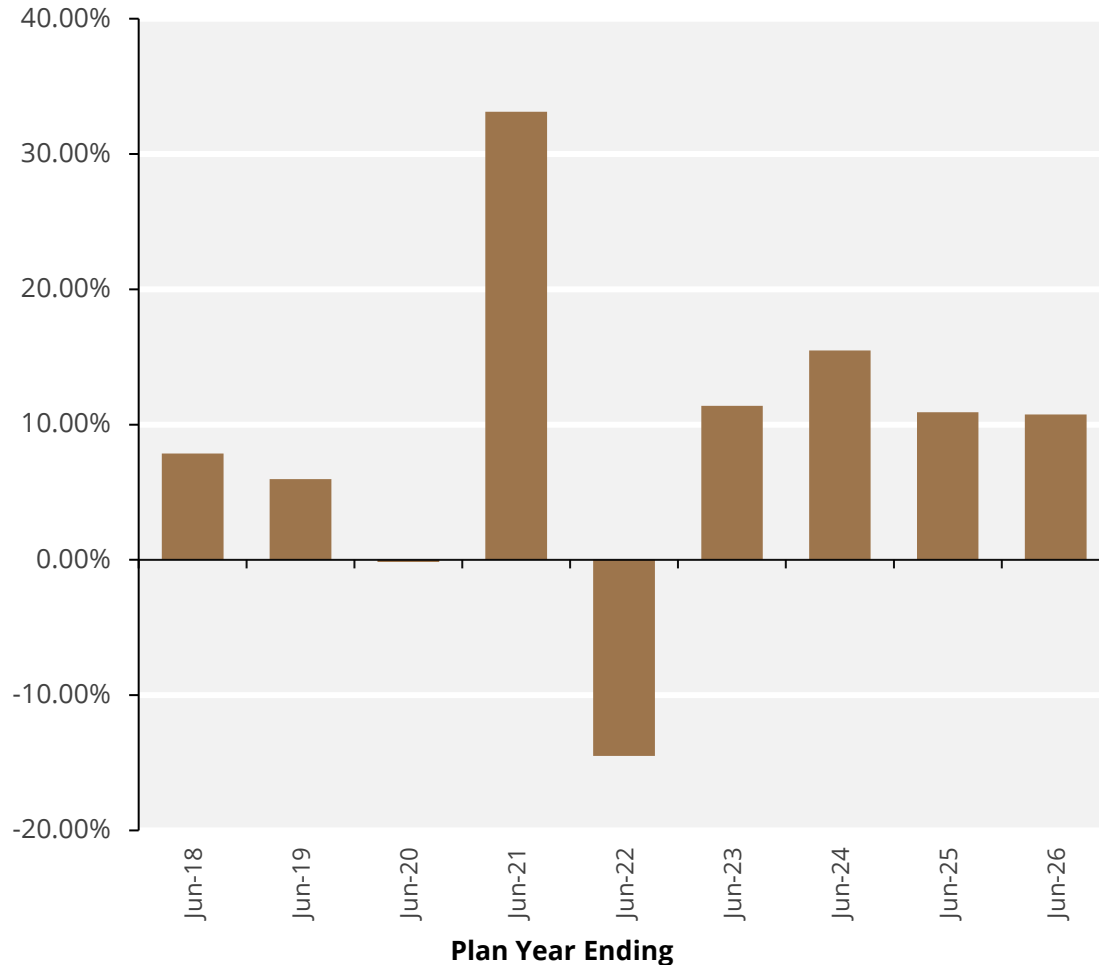
Year	Contributions	Disbursements	Total Assets
Jun-18	\$50,000	\$0	\$53,686
Jun-19	\$0	\$0	\$56,754
Jun-20	\$0	\$0	\$56,360
Jun-21	\$0	\$0	\$74,620
Jun-22	\$0	\$0	\$63,432
Jun-23	\$0	\$0	\$70,253
Jun-24	\$0	\$0	\$80,662
Jun-25	\$0	\$0	\$88,952
Jun-26*	\$0	\$0	\$98,109

Plan Year Ending

*Plan Year Ending June 2026 is based on 8 months of activity.

OPEB PLAN TOTAL RETURNS

AS OF FEBRUARY 28, 2026



Year	Returns
Jun-18	7.87%
Jun-19	5.96%
Jun-20	-0.15%
Jun-21	33.13%
Jun-22	-14.49%
Jun-23	11.39%
Jun-24	15.48%
Jun-25	10.91%
Jun-26*	10.73%

Inception to Date (Annualized)
8.65%

*Plan Year Ending June 2026 is based on 8 months of activity.

Returns are net of the embedded fund fees and gross of trustee and trust administrator fees

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INVESTMENT REVIEW



PARS OPEB and Pension Trust Balanced Strategic Blend

Investment Performance Review For the Quarter Ended December 31, 2025

Client Management Team

PFM Asset Management
A division of U.S. Bancorp Asset Management, Inc.

PFM Asset Management

1 California Street
Suite 1000
San Francisco, CA 94111

1735 Market Street
43rd Floor
Philadelphia, PA 19103

About PFM Asset Management*

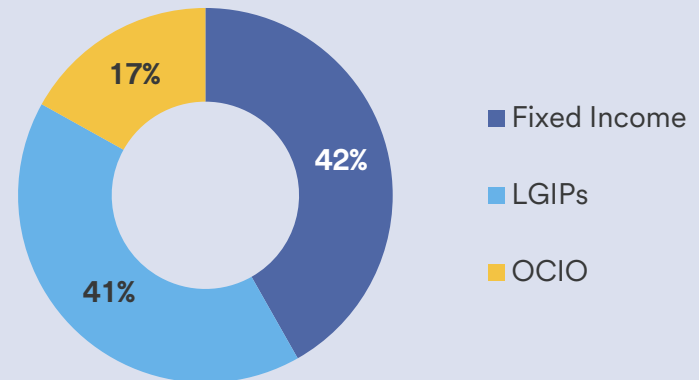
Our Investment Solutions

- **Outsourced Chief Investment Officer (OCIO):** Multi-asset class portfolios for institutional investors
- **Fixed Income:** High-quality, short- and intermediate-term portfolios for operating funds, reserves, working capital, self-insurance funds and bond proceeds
- **Local Government Investment Pools (LGIPs):** services for programs with options ranging from fully liquid cash management to a fixed-rate, fixed-term investment
- **Specialized Solutions:** Arbitrage rebate, escrow restructuring, bond proceeds investments, structured investments

40+ years of experience in the public sector**

\$171.5b in public sector assets under management**

Assets by Investment Solution¹



¹Illustrates public sector assets under management by investment solution as of September 30, 2025. Total may not add up to 100% due to rounding.

*A division of U.S. Bancorp Asset Management, Inc.

**As of September 30, 2025. Public sector includes government, pool, and TERM. Total assets under management for U.S. Bancorp Asset Management, Inc. were \$402.1 billion.

Financial Markets & Investment Strategy Review

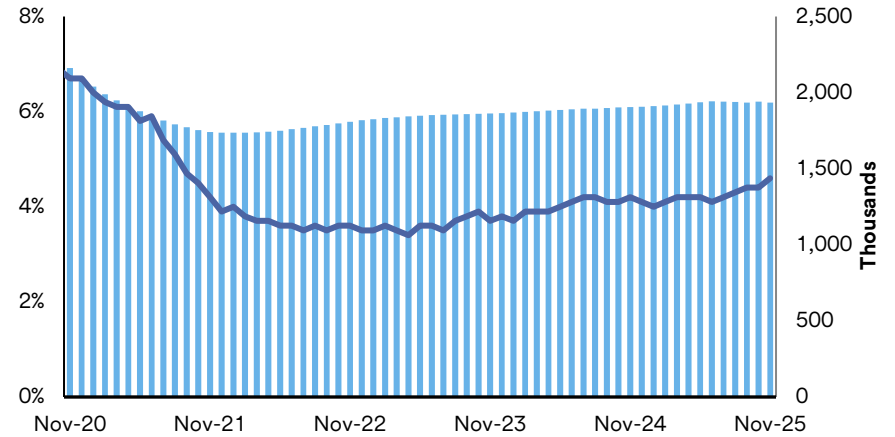
Index or Average Name	QTD	YTD	One Year	Three Year	Five Year	Seven Year	Ten Year
DOMESTIC EQUITY							
S&P 500 (TR)	2.66%	17.88%	17.88%	22.98%	14.42%	17.28%	14.81%
Russell 3000	2.40%	17.15%	17.15%	22.22%	13.14%	16.63%	14.27%
Russell 1000 Growth	1.12%	18.56%	18.56%	31.12%	15.31%	21.23%	18.11%
Russell 1000	2.41%	17.37%	17.37%	22.72%	13.58%	17.01%	14.58%
Russell 1000 Value	3.81%	15.91%	15.91%	13.88%	11.32%	12.09%	10.52%
Russell Midcap	0.16%	10.60%	10.60%	14.34%	8.67%	12.74%	11.00%
Russell Midcap Growth	-3.70%	8.66%	8.66%	18.62%	6.64%	14.19%	12.48%
Russell Midcap Value	1.42%	11.05%	11.05%	12.26%	9.82%	11.40%	9.77%
Russell 2000 Growth	1.22%	13.01%	13.01%	15.57%	3.18%	10.58%	9.57%
Russell 2000	2.19%	12.81%	12.81%	13.72%	6.09%	10.59%	9.61%
Russell 2000 Value	3.26%	12.59%	12.59%	11.72%	8.87%	10.08%	9.26%
INTERNATIONAL EQUITY							
MSCI EAFE	4.86%	31.22%	31.22%	17.21%	8.92%	10.53%	8.18%
MSCI AC World	3.29%	22.34%	22.34%	20.63%	11.19%	13.98%	11.71%
MSCI AC World ex USA	5.05%	32.39%	32.39%	17.32%	7.90%	10.14%	8.41%
MSCI AC World ex USA Small Cap	2.96%	29.26%	29.26%	15.59%	6.90%	10.03%	8.12%
MSCI EM (Emerging Markets)	4.73%	33.57%	33.57%	16.38%	4.19%	8.05%	8.41%
ALTERNATIVES							
FTSE Nareit/Equity REITs - INV	-1.56%	2.88%	2.88%	8.35%	6.62%	6.92%	5.69%
MSCI U.S. REIT INDEX	-1.69%	2.95%	2.95%	8.38%	6.58%	6.93%	5.70%
MSCI World Core Infrastructure	0.32%	15.85%	15.85%	8.40%	6.56%	8.10%	8.31%
FIXED INCOME							
Bloomberg U.S. Aggregate	1.10%	7.30%	7.30%	4.66%	-0.36%	1.99%	2.01%
Bloomberg U.S. Government/Credit	0.90%	6.88%	6.88%	4.56%	-0.59%	2.14%	2.16%
Bloomberg U.S. Intermediate Government/Credit	1.20%	6.97%	6.97%	5.05%	0.96%	2.54%	2.29%
Bloomberg U.S. Treasury (1-3 Y)	1.14%	5.17%	5.17%	4.49%	1.75%	2.21%	1.83%
ICE BofA U.S. High Yield	1.35%	8.50%	8.50%	10.02%	4.49%	6.09%	6.44%
Bloomberg Global Aggregate	0.24%	8.17%	8.17%	3.98%	-2.14%	0.65%	1.26%
CASH EQUIVALENT							
Bloomberg 3 Month T-Bill	0.99%	4.23%	4.23%	4.89%	3.22%	2.72%	2.21%

Source: Investment Metrics. Returns are expressed as percentages. Please refer to the last page of this document for important disclosures relating to this material.

THE ECONOMY

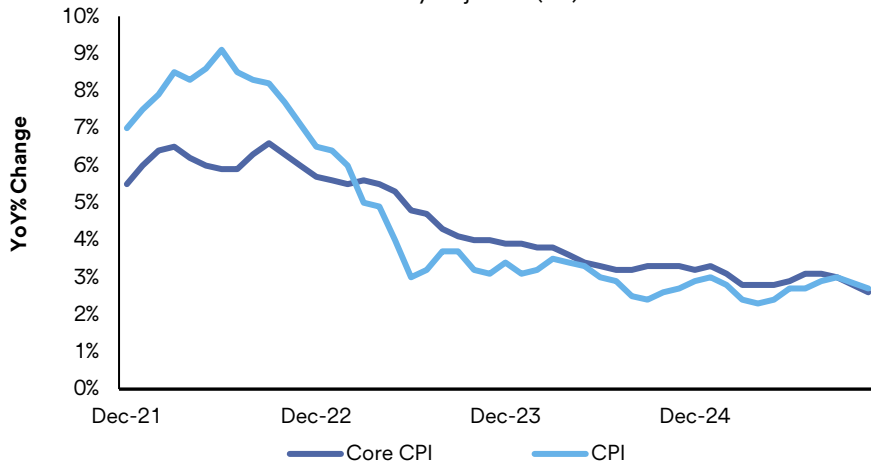
- In the third quarter, U.S. real gross domestic product (GDP) accelerated sharply at a seasonally adjusted annualized rate of 4.3%, marking the strongest growth in more than two years. This rebound in growth was driven by strong consumer spending and an increase in net exports. The continued growth points to the persistent resilience of the economy.
- The U.S. unemployment rate ticked up over the quarter, rising to 4.6% in November. The latest initial jobless claims ended the quarter at 199,000 (for the week ending December 27), the lowest level since January, with the continuing jobless claims also falling to approximately 1.9 million as we continue to see no meaningful increase in layoffs through 2025. The other side of the “low-hire, low-fire” environment can be seen as the pace of hiring, which slowed to 64,000 new jobs created in November after a decline of 105,000 in October, led by a drop in payrolls due to resignation offers across the federal government.
- Inflation appears to be cooling in the fourth quarter. Headline inflation (CPI) grew at a year-over-year rate of 2.7% in November, the lowest rate since July. This reading comes with a caveat however, as the government shutdown at the start of the quarter has led to a missed October reading as well as no monthly data released for November.

U.S. Unemployment and Monthly Average Continued Claims



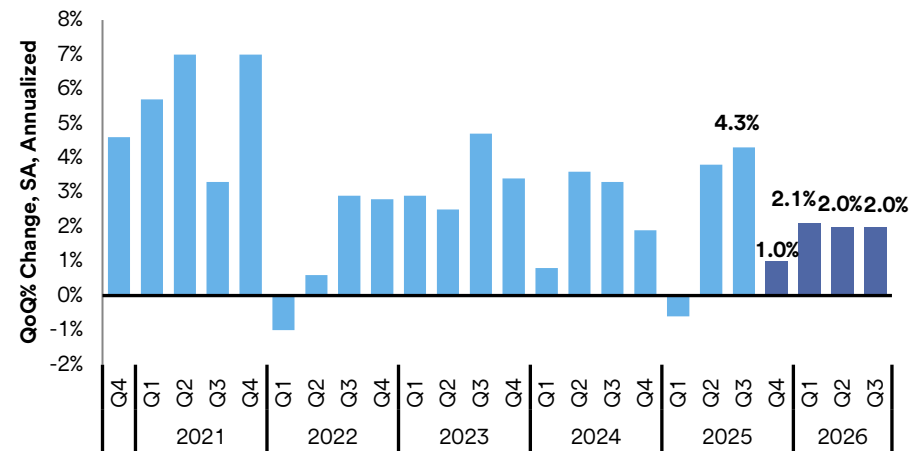
Source: Bloomberg.

U.S. Inflation Rate
Seasonally Adjusted (SA)



Source: Bureau of Labor Statistics.

U.S. GDP Growth

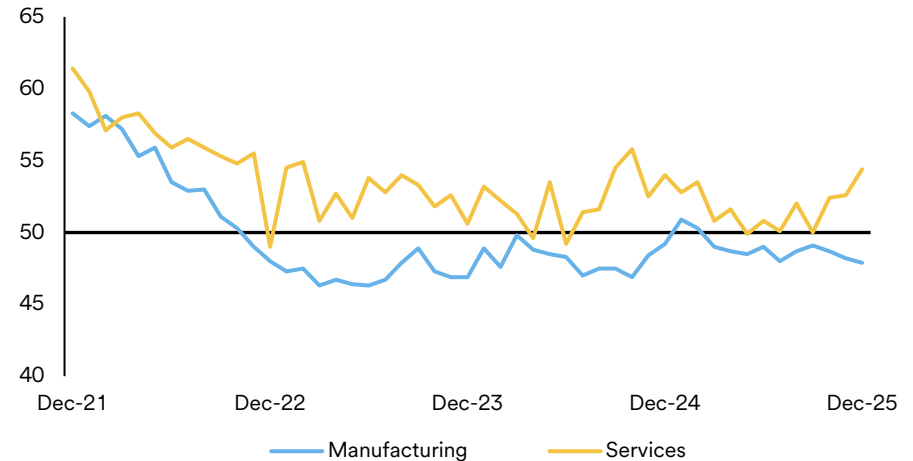


Source: Bloomberg. Light blue bars indicate actual numbers; dark blue bars indicate forecasted estimates.

WHAT WE'RE WATCHING

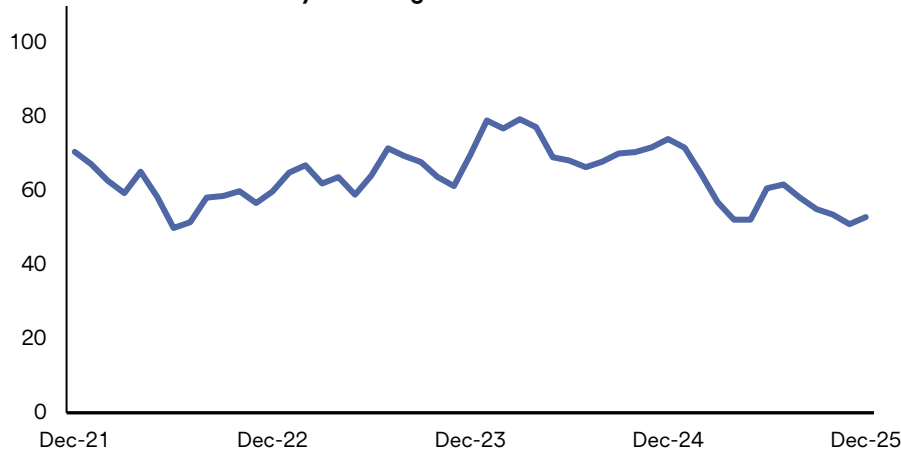
- The Federal Reserve (Fed) cut rates twice in the fourth quarter, bringing the new range to 3.50%-3.75% as labor data continued to soften. Looking forward, the summary of economic growth projections point to growing optimism, with an increase in projected economic growth along with a decrease in projected inflation for 2026. The dot plot for 2026 reflects an expectation of one cut in 2026, though the timing of such a move is uncertain. Outside of the U.S., the European Central Bank (ECB), which preceded the U.S. with cuts earlier in the year, held rates flat in the fourth quarter.
- U.S. consumer sentiment, as measured by the University of Michigan survey of consumers, continued to fall during the fourth quarter, and the reading was down nearly 30% year over year as affordability concerns remain. This consumer fatigue translated into a slower than expected gain in retail sales as consumers were more selective about purchases.
- U.S. military action in Venezuela adds to the ongoing geopolitical risks, prompting increased uncertainty as the possible implications for the market are weighed. Venezuela's oil reserves, and their relationship to China, its primary oil buyer, are of particular interest. In the short term the impact on energy prices is expected to be relatively minimal, while the longer-term impacts depend on the future of Venezuela's energy infrastructure and who controls it.

U.S. ISM Manufacturing & Services PMI



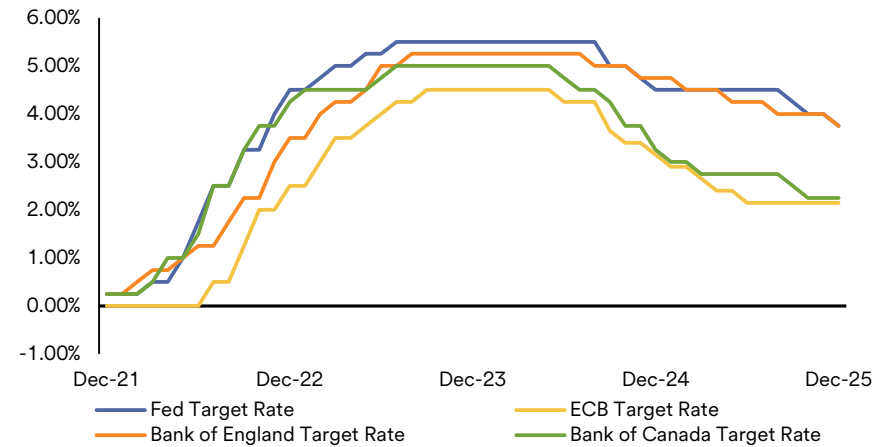
Source: Bloomberg.

University of Michigan Consumer Sentiment



Source: Bloomberg.

Global Central Bank Rates



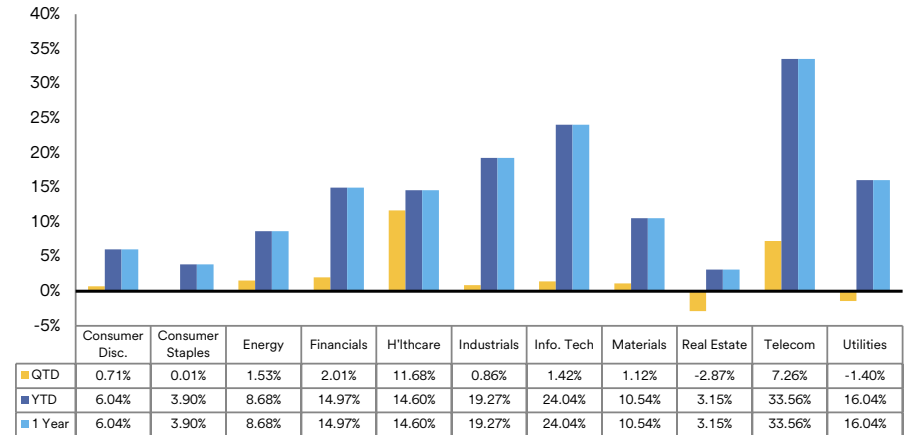
Source: Bloomberg.

DOMESTIC EQUITY

- The S&P 500 Index (S&P) posted a 2.7% return in the fourth quarter (of 2025). That equates to a return of 17.9% for the year.
- Within the S&P 500, the performance varied greatly across sectors, with nine of the 11 seeing positive returns. The best performing sectors were Healthcare (11.7%), Communication Services (7.3%), and Financials (2.0%). Utilities saw a loss of (-1.4%) while Real Estate performed the worst, with a negative return (-2.9%).
- Positive returns were seen across all capitalizations with large caps, as represented by the Russell 1000 Index, returning 2.4% during the quarter while mid and small caps, as represented by the Russell Midcap and Russell 2000 indices returned 0.2% and 2.2% respectively. Value stocks outperformed growth stocks across all capitalizations.
- According to FactSet Earnings Insight as of December 22, 2025, analysts are projecting earnings growth of 8.3% in Q4 2025, up from an initial estimate of 7.2% in September. This is below the five- and 10-year average earnings growth rates, but remains relatively strong, and would mark the tenth consecutive quarter of year-over-year earnings growth for the index. The index has once again been supported by the technology space. For calendar year 2025, analysts are projecting year-over-year earnings growth of 12.3%.
- At quarter end, the 12-month adjusted positive forward price-to-earnings (P/E) ratio (includes only positive earnings results for consistency) for the S&P 500 is 27.5, which is above the five year average of 23.3. The Russell 2000 Index, which represents small cap stocks, had an adjusted positive forward P/E ratio of 21.4, also above its five year average of 17.7.

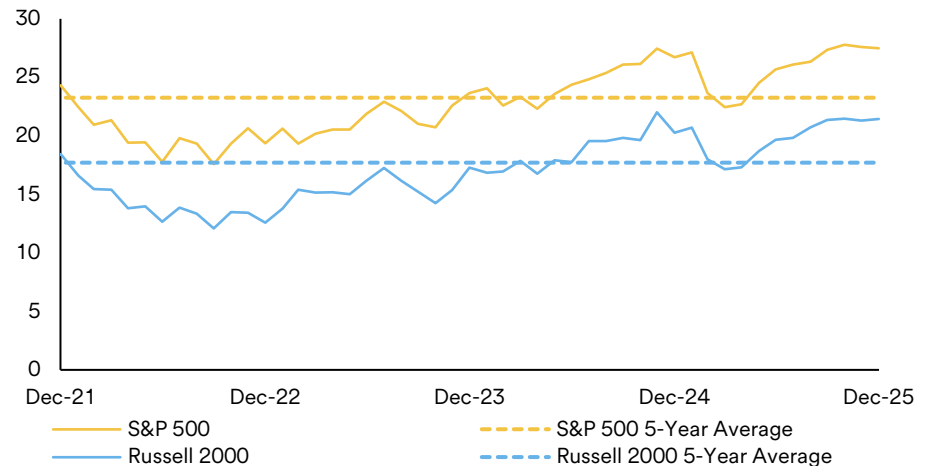
S&P 500 Index Performance by Sector

Periods Ended December 31, 2025



Source: Bloomberg.

P/E Ratios of Major Stock Indices*



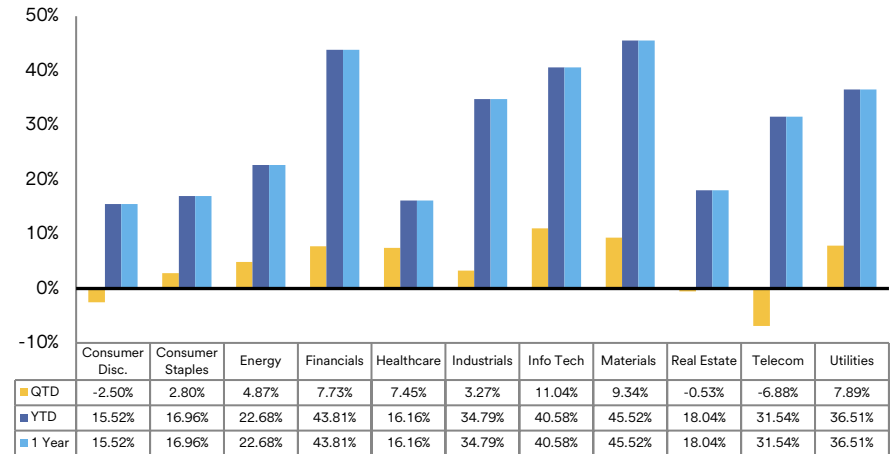
Source: Bloomberg.

*P/E ratios are calculated based on one-year forward estimates and adjusted to include only positive earnings results for consistency.

INTERNATIONAL EQUITY

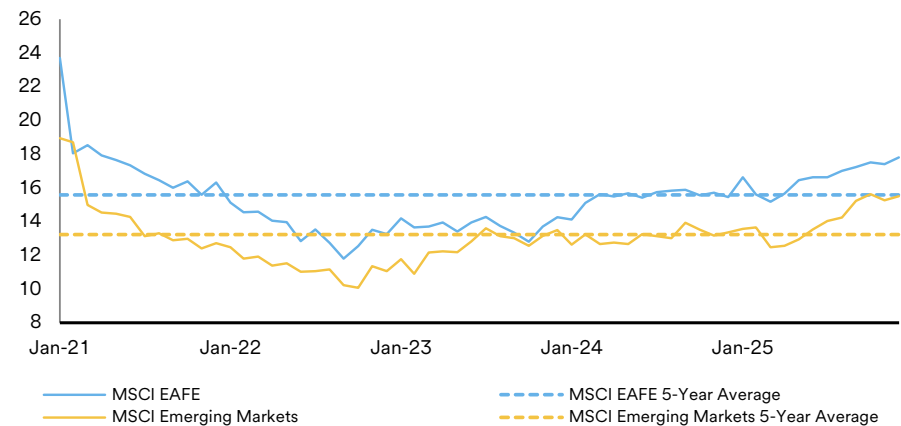
- Markets outside of the United States, as measured by the MSCI ACWI ex-U.S. Index, outperformed domestic equities in the fourth quarter returning 5.1% for the quarter, with a year-to-date return of 32.4%, its highest return since 2009.
- Seven of the 11 sectors posted positive returns for the quarter. The top performing sectors were Information Technology (11.0%), Materials (9.3%), and Utilities (7.9%). The worst performers for the quarter were Real Estate (-0.5%), Consumer Discretionary (-2.5%), and Communication Services (-6.9%).
- Developed ex-U.S. markets, as represented by the MSCI EAFE Index, outperformed emerging markets (EM), as represented by the MSCI Emerging Market Index, returning 4.9% versus 4.7% for the quarter. While the U.S. Dollar (USD) strengthened somewhat during the quarter, the continued softness positively impacted returns from all international indices, as they are stated in USD.
- Of the five largest-weighted countries in the MSCI EAFE Index, the MSCI Switzerland (9.8%) and MSCI United Kingdom (7.0%) indices outperformed the overall EAFE index. The MSCI France (3.4%), MSCI Japan (3.2%), and MSCI Germany (2.6%) indices underperformed.
- Of the five largest-weighted countries in EM, MSCI Korea (27.3%), MSCI Taiwan (10.4%), and MSCI Brazil (8.3%) outperformed the MSCI Emerging Markets index, while MSCI India (4.8%) performed in line and MSCI China (-7.4%) underperformed with notable negative returns. Both Korea and Taiwan continued their streak of double-digit returns supported by semiconductor names positively impacted by the artificial intelligence (AI) theme.
- Value stocks outperformed growth stocks for the quarter as represented by the broad benchmarks. The MSCI AC World ex-USA Growth Index returned 2.6%, while the MSCI AC World ex-USA Value Index returned 7.6%. Within EM, value stocks (MSCI EM Value) returned 5.8% versus 3.1% for growth. Small caps, as represented by the MSCI ACWI ex-U.S. Small Cap Index posted a return of 3.0%.
- Non-U.S. equity valuations increased in both emerging and developed markets. Both sit slightly above long-term averages. As of quarter-end, the MSCI EAFE's Adjusted Positive Forward P/E stood at 17.8 versus a five year average of 15.6. MSCI EM ended the quarter with an Adjusted Positive Forward P/E ratio of 15.5, above its five year average of 13.2.

MSCI ACWI ex-U.S. Sectors
Periods Ended December 31, 2025



Source: Bloomberg.

P/E Ratios of MSCI Equity Indices*



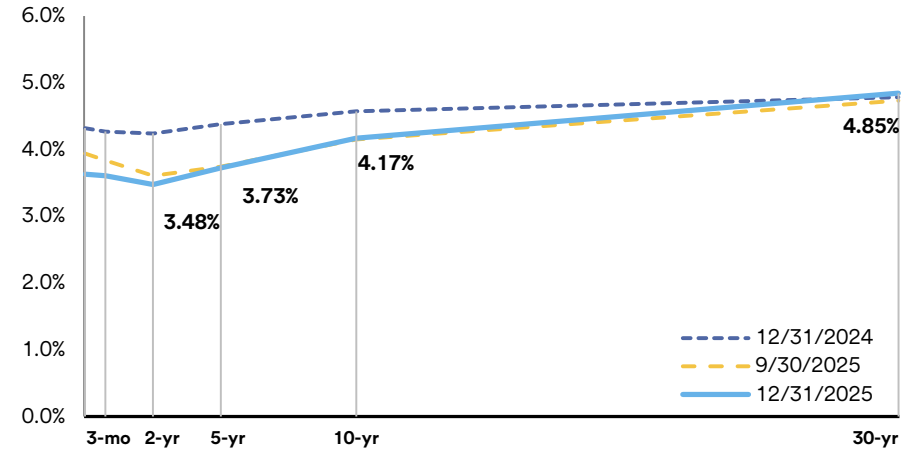
Source: Bloomberg.

*P/E ratios are calculated based on one-year forward estimates and adjusted to include only positive earnings results for consistency.

FIXED INCOME

- The U.S. bond market, represented by the Bloomberg U.S. Aggregate Index, returned 1.1% during the fourth quarter.
- The Bloomberg U.S. Treasury Index closed the quarter returning 0.9%. As the Fed cut rates first in October and then again in December, the yield curve steepened slightly with rates falling in the short to intermediate spectrum while long term yields rose. 30-year Treasury yields rose to 4.8%, while the 2-year ended at 3.5%. Cash markets continued to provide higher yields than the 2-year Treasuries.
- Corporate credit saw positive returns across the quality spectrum for the quarter. The Investment-Grade Bloomberg U.S. Corporate (IG Corp) Index returned 0.9% while High Yield bonds, as represented by the ICE BofA High Yield (HY) Index, returned 1.4%. Spreads remained relatively flat for High Yield corporates while they widened slightly for investment-grade corporates over the quarter. Both remain below their respective 10-year averages. Tailwinds of high profit margins, continued debt issuance, and ongoing mergers and acquisitions (M&A) activity points to positive corporate sentiment.

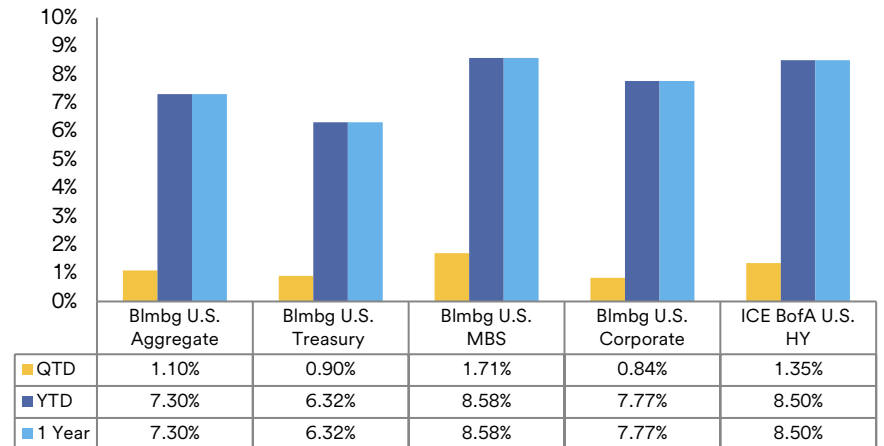
U.S. Treasury Yield Curve



Source: Bloomberg.

Returns for Fixed-Income Segments

Periods Ended December 31, 2025

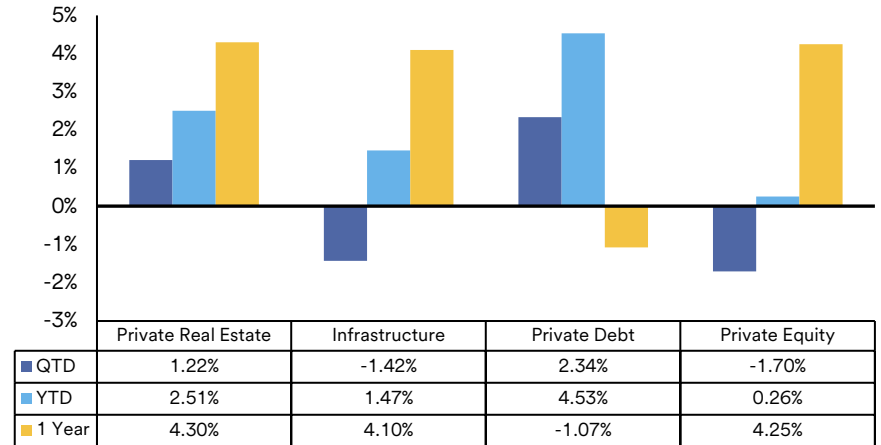


Source: Bloomberg.

ALTERNATIVES

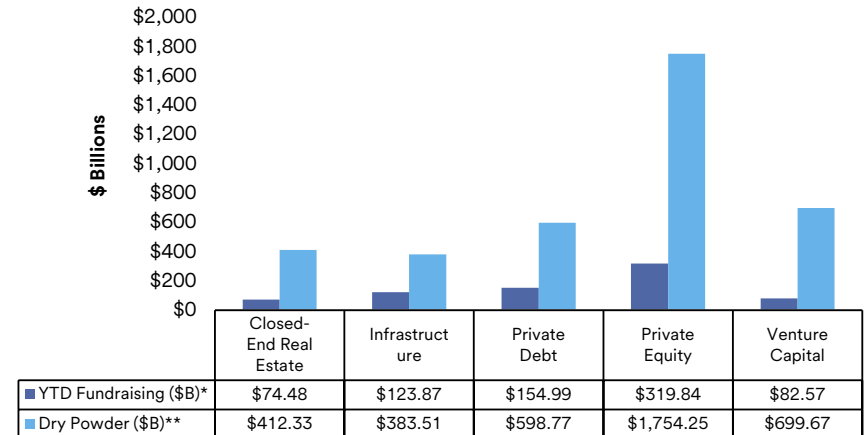
- Real estate investment trusts (REITs), as measured by the MSCI U.S. REITs Index, returned -1.7% in the fourth quarter leading to a year-to-date return of 3.0%. Private real estate, as measured by the NCREIF Property Index, gained 1.2% in the second quarter of 2025, marking the third consecutive quarter of positive total returns as property value declines leveled off across most sectors. The “Other” category, which includes a wide variety of non-categorized property types including data centers was the top performer, returning 2.3%, while Hotels returned a marginally positive 0.1%.
- Listed infrastructure, as measured by the MSCI World Core Infrastructure Index, returned 0.3% in the fourth quarter, down from a 4.9% return in the prior quarter. According to PitchBook, Private infrastructure funds posted a return of -1.4% in Q2 2025. Over the longer term, they generated an annualized return of 9.9% for the five years ended Q2 2025. By the end of Q3 2025, 57 private infrastructure funds raised \$123.9 billion, beating the funds raised during all of 2024 with one quarter remaining. Most of the capital went to funds larger than \$5 billion which seek to capitalize on rising AI demand. Infrastructure dry powder has fallen from the previous year and stands at \$383.5 billion as of March 31, 2025.
- By the end of Q3 2025, 125 private debt funds raised \$155.0 billion, with fundraising now on pace for another strong year by historical standards. Private debt dry powder remains above the long-term average at \$598.8 billion as of March 31, 2025. According to Cliffwater, the performance of private debt funds continues to be strong but is softening, posting a return of 2.3% in Q2 2025. The asset class has generated an annualized return of 11.1% for the five years ended Q2 2025.
- As of Q3 2025, 411 private equity funds raised \$319.8 billion –as the slower pace of fundraising continues due to constrained distributions hindering fundraising efforts. The bulk of the capital raised continues to flow to experienced managers raising capital for funds larger than \$1 billion. Global private equity dry powder, which accounts for the bulk of private capital dry powder, remains high at \$1.8 trillion as of March 31, 2025. Exit tailwinds of lower borrowing costs and greater market clarity should aid fundraising efforts into 2026. PitchBook, private equity funds posted a return of -1.7% in Q2 2025. The asset class has generated an annualized return of 17.6% for the five years ended Q2 2025.

Returns for Private Capital Assets



Source: NCREIF, PitchBook, Cliffwater, Cambridge Associate.
As of June 30, 2025, the most recent period for which all index data is available.

Private Capital Fundraising & Dry Powder



Sources: Pitchbook.
* Total capital raised in 2025 as of September 30, 2025 - most recent period for which ALL fundraising data is available.
** Cumulative dry powder and total AUM as of March 31, 2025.
*** Excluding open-end, evergreen fund vehicles.

Factors to Consider Over the Next 6-12 Months

<p>Monetary Policy (Global):</p>  <ul style="list-style-type: none"> • The Fed cut rates by 50 bps in Q4 but noted continuing challenges in achieving its dual mandate. • Markets view policy risks as skewed towards additional easing, assuming a more dovish Chair takes office in mid-2026 as expected. • Major central banks have an accommodative policy in place with the BOJ being the notable exception. 	<p>Economic Growth (Global):</p>  <ul style="list-style-type: none"> • Benefits from the tax and reconciliation bill and increases in anticipated AI capex are expected to support U.S. growth in 2026. • The effects of U.S. government shutdown expected to be temporary and fully recouped in Q1 2026. • Strong consumer spending and steadier trade dynamics continue to support global growth. 	<p>Inflation (U.S.):</p>  <ul style="list-style-type: none"> • While headline inflation moved lower in Q4, significant gaps in data collection due to the U.S. government shutdown likely biased the data lower and warrants attention. • Lower shelter inflation continues to support disinflation going forward although goods prices continue to experience tariff passthroughs.
<p>Financial Conditions (U.S.):</p>  <ul style="list-style-type: none"> • Financial conditions eased as corporate earnings exceeded expectations and tariff concerns abated resulting in equities reaching new all-time highs and credit spreads tightening to historical lows. • Financial conditions expected to remain tailwind as monetary policy eases, but any fiscal uncertainty and geopolitical risks could reintroduce tighter financial conditions over the next 6-12 months. 	<p>Consumer Spending (U.S.):</p>  <ul style="list-style-type: none"> • Consumer activity remained resilient through the holiday shopping season, highlighting the disconnect between slowing sentiment and activity. • Consumer spending is dominated by higher-income cohorts pointing to K-shaped economy. • A significant correction in the equity market or a material slowdown in the labor market are the largest threats to consumer spending. 	<p>Labor Markets (U.S.):</p>  <ul style="list-style-type: none"> • Labor market conditions continued to cool with net new job creation close to zero. Initial jobless claims and layoff rates remain low, easing some concerns over labor weakness. • The unemployment rate continued to tick higher, while job openings declined and the quits rate remains subdued, signaling reduced worker leverage even as real wage growth remains positive.
<p>Corporate Fundamentals:</p>  <ul style="list-style-type: none"> • Earnings growth expectations are positive across global equities with double digit growth expected across U.S. and international equity benchmarks. • In the U.S., M&A and capital spending pickup, tax changes and rate cuts are positives while any tariff related cost pressures need to be monitored. 	<p>Valuations:</p>  <ul style="list-style-type: none"> • U.S. equities and credit markets trade at valuations that are expensive relative to their history. • Resilient growth, strong earnings growth and higher profit margins are supportive of the current valuations while inflation and AI related exuberance are not fully reflected in the current valuations. 	<p>Political/Policy Risks:</p>  <ul style="list-style-type: none"> • Some of the policy and trade related uncertainty was resolved in 2025. • The possibility of another U.S. government shutdown, legal challenges to tariffs and ongoing geopolitical uncertainty are negatives.

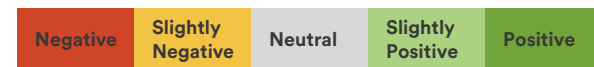


Statements and opinions expressed about the next 6-12 months were developed based on our independent research with information obtained from Bloomberg. The views expressed within this material constitute the perspective and judgment of PFM Asset Management, a division of U.S. Bancorp Asset Management, Inc., at the time of distribution (December 31, 2025) and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, we cannot guarantee its accuracy, completeness, or suitability.

Investment Strategy Overview

Asset Class	Our Q1 2026 Investment Outlook	Comments
U.S. Equities		<ul style="list-style-type: none"> US large caps returned double-digit returns in 2025 supported by supportive fiscal and monetary policy, strong earnings growth and continued support for AI related stocks. Looking ahead, resilient economic growth is expected to broaden market performance away from the top technology names (Mag-7) and towards smaller and mid cap names. Value stocks have been outperforming growth stocks recently led by economic growth tailwinds and capex expensing rules that provides favorable outlook for cyclical industries. Small caps have recovered in the latter half of 2025 as Fed rate cuts, higher liquidity and improving earnings became tailwinds. While we hold a positive view on small caps, we expect to remain neutral until we see some recovery across employment and manufacturing indicators.
Large-Caps		
Small-Caps		
Non-U.S. Equities		<ul style="list-style-type: none"> International equities posted strong returns in 2025. Valuations are attractive relative to US equities but multiples look expensive relative to recent history. Earnings growth of ~13% expected in 2026. Across Europe and China, we believe that there are structural/geopolitical issues that need to be addressed for long-term sustained outperformance. Accommodative monetary policy, fiscal stimulus in certain regions and weaker USD are tailwinds but tariff driven uncertainty remains.
Developed Markets		
Emerging Markets		
Fixed Income		<ul style="list-style-type: none"> Fed cut rates by 75bps in 2025 and has provided guidance for one more rate cut in 2026. Yield curve has steepened over 2025 while 10 year yields have stayed above 4.0%. We expect long term rates to be range-bound due to inflation expectations but are watching for any meaningful increase in yields that could lead to a risk-off sentiment. We remain duration neutral at this time. Absolute yield levels look attractive even as credit spreads are closer to historical lows. We are neutral to credit sectors at this time given the tighter spreads even as corporate fundamentals remain strong.
Core Bonds		
Investment Grade Credit		
High Yield Credit		
Diversifying Assets		<ul style="list-style-type: none"> REIT performance has been sensitive to the long-term yields and have underperformed broader equities in 2025. Looking ahead, continued economic growth and the recent rate cuts are expected to be tailwinds. Along with diversified source of return, improving AI sentiment bodes well for data center buildout and utilities are long-term drivers for listed infrastructure.
Listed Real Estate		
Listed Global Infrastructure		

● Current outlook ○ Outlook one quarter ago



The view expressed within this material constitute the perspective and judgment of PFM Asset Management, a division of U.S. Bancorp Asset Management, Inc., at the time of distribution (December 31, 2025) and are subject to change.

SOURCES

Factset

<https://www.bea.gov/sites/default/files/2024-12/gdp3q24-3rd-fax.pdf>

<https://www.bls.gov/news.release/pdf/empst.pdf>

<https://www.bls.gov/news.release/pdf/cpi.pdf>

<http://www.sca.isr.umich.edu/>

NCREIF

PitchBook

Cliffwater

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Plan Performance Summary

Asset Allocation & Performance

	Allocation		Performance(%)							Inception Date
	%	1 Quarter	2025	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception	
Total Portfolio	100.00	2.01	13.48	13.48	13.21	6.58	9.19	8.06	8.17	10/01/2015
<i>Blended Benchmark</i>		<i>2.18</i>	<i>13.46</i>	<i>13.46</i>	<i>13.41</i>	<i>7.00</i>	<i>9.60</i>	<i>8.40</i>	<i>8.51</i>	
Domestic Equity	36.10	2.49	17.18	17.18	21.17	12.20	15.39	13.21	13.48	10/01/2015
<i>Russell 3000 Index</i>		<i>2.40</i>	<i>17.15</i>	<i>17.15</i>	<i>22.25</i>	<i>13.15</i>	<i>16.64</i>	<i>14.29</i>	<i>14.59</i>	
Columbia Contrarian Core Inst3	7.69	2.61	17.51	17.51	24.27	14.26	17.94	14.39	20.31	02/01/2024
<i>S&P 500</i>		<i>2.66</i>	<i>17.88</i>	<i>17.88</i>	<i>23.01</i>	<i>14.42</i>	<i>17.29</i>	<i>14.82</i>	<i>21.37</i>	
Putnam Core Equity Fund Y	3.30	3.61	17.31	17.31	23.83	15.87	18.37	15.50	15.83	10/01/2024
Schwab US Large-Cap ETF	23.46	2.35	17.42	17.42	22.99	13.69	17.09	14.66	16.25	10/01/2024
<i>S&P 500</i>		<i>2.66</i>	<i>17.88</i>	<i>17.88</i>	<i>23.01</i>	<i>14.42</i>	<i>17.29</i>	<i>14.82</i>	<i>16.26</i>	
PIMCO RAE US Small Cap Fund	0.88	3.65	6.29	6.29	15.93	15.83	15.12	12.64	N/A	01/01/2026
<i>Russell 2000 Value Index</i>		<i>3.26</i>	<i>12.59</i>	<i>12.59</i>	<i>11.73</i>	<i>8.88</i>	<i>10.09</i>	<i>9.27</i>	<i>N/A</i>	
<i>Russell 2000 Index</i>		<i>2.19</i>	<i>12.81</i>	<i>12.81</i>	<i>13.73</i>	<i>6.09</i>	<i>10.60</i>	<i>9.62</i>	<i>N/A</i>	
Columbia Small Cap Growth Inst3	0.36	4.38	21.86	21.86	24.22	3.47	16.16	15.09	20.87	10/01/2024
<i>Russell 2000 Growth Index</i>		<i>1.22</i>	<i>13.01</i>	<i>13.01</i>	<i>15.59</i>	<i>3.18</i>	<i>10.59</i>	<i>9.57</i>	<i>11.78</i>	
<i>Russell 2000 Index</i>		<i>2.19</i>	<i>12.81</i>	<i>12.81</i>	<i>13.73</i>	<i>6.09</i>	<i>10.60</i>	<i>9.62</i>	<i>10.42</i>	
Emerald Growth Institutional	0.42	6.11	31.95	31.95	23.33	8.06	14.83	12.71	29.07	02/01/2024
<i>Russell 2000 Growth Index</i>		<i>1.22</i>	<i>13.01</i>	<i>13.01</i>	<i>15.59</i>	<i>3.18</i>	<i>10.59</i>	<i>9.57</i>	<i>16.70</i>	
<i>Russell 2000 Index</i>		<i>2.19</i>	<i>12.81</i>	<i>12.81</i>	<i>13.73</i>	<i>6.09</i>	<i>10.60</i>	<i>9.62</i>	<i>15.09</i>	
International Equity	18.26	4.03	29.46	29.46	15.43	6.27	9.76	8.11	8.14	10/01/2015
<i>MSCI AC World ex USA (Net)</i>		<i>5.05</i>	<i>32.39</i>	<i>32.39</i>	<i>17.33</i>	<i>7.91</i>	<i>10.15</i>	<i>8.41</i>	<i>8.54</i>	
MFS International Growth R6	2.72	1.45	21.23	21.23	15.04	7.24	11.12	10.03	16.25	02/01/2024
<i>MSCI AC World ex USA (Net)</i>		<i>5.05</i>	<i>32.39</i>	<i>32.39</i>	<i>17.33</i>	<i>7.91</i>	<i>10.15</i>	<i>8.41</i>	<i>19.68</i>	
Fidelity International Index	7.43	4.59	31.96	31.96	17.42	9.13	10.74	8.42	18.94	07/01/2024
<i>MSCI EAFE (net)</i>		<i>4.86</i>	<i>31.22</i>	<i>31.22</i>	<i>17.22</i>	<i>8.92</i>	<i>10.54</i>	<i>8.18</i>	<i>18.71</i>	
Goldman Sachs GQG Ptnrs Intl Opportunities	2.58	3.94	20.84	20.84	15.80	9.20	12.60	N/A	6.26	07/01/2024
<i>MSCI AC World ex USA (Net)</i>		<i>5.05</i>	<i>32.39</i>	<i>32.39</i>	<i>17.33</i>	<i>7.91</i>	<i>10.15</i>	<i>8.41</i>	<i>20.45</i>	
Fidelity Emerging Markets Index Fund	5.52	4.55	33.94	33.94	16.13	3.95	7.80	8.26	14.18	08/01/2025
<i>MSCI EM (net)</i>		<i>4.73</i>	<i>33.57</i>	<i>33.57</i>	<i>16.40</i>	<i>4.20</i>	<i>8.06</i>	<i>8.42</i>	<i>13.66</i>	

Returns are gross of investment advisory fees and net of mutual fund fees. Returns are expressed as percentages and for periods over one year are annualized. Asset class level returns may vary from individual underlying manager returns due to cash flows. Total Portfolio returns prior to 1/1/2024 were provided by previous Advisor and believed to be accurate and reliable. Returns for January 2024 were calculated by the legacy performance system of previous Advisor and believed to be accurate and reliable.

Asset Allocation & Performance

	Allocation	Performance(%)								Inception Date
	%	1 Quarter	2025	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception	
Other Growth	5.70	-0.05	11.29	11.29	N/A	N/A	N/A	N/A	9.30	02/01/2024
Cohen & Steers Inst Realty Shares	2.82	-2.57	3.09	3.09	7.27	5.77	8.02	6.48	7.37	06/01/2024
<i>MSCI US REIT Index</i>		-1.69	2.95	2.95	8.39	6.58	6.94	5.71	9.50	
Lazard Global Listed Infrastructure Inst	1.45	4.97	23.86	23.86	13.59	11.64	10.61	9.92	16.77	10/01/2024
<i>MSCI World Core Infrastructure Index (Net)</i>		0.32	15.85	15.85	8.41	6.56	8.11	8.32	6.79	
NYLI CBRE Global Infrastructure	1.43	0.16	15.55	15.55	8.96	6.96	8.93	8.47	12.16	06/01/2024
<i>FTSE Global Core Infrastructure 50/50 Index (Net)</i>		0.79	14.36	14.36	8.58	6.95	7.69	7.79	11.71	
Fixed Income	37.62	1.10	7.56	7.56	5.53	0.48	2.50	2.52	2.43	10/01/2015
<i>Blmbg. U.S. Aggregate</i>		1.10	7.30	7.30	4.66	-0.36	1.99	2.01	1.90	
Baird Aggregate Bond Inst	10.33	1.01	7.36	7.36	5.19	-0.13	2.41	2.43	5.80	03/01/2024
iShares Core US Aggregate Bond ETF	8.56	1.00	7.19	7.19	4.69	-0.38	1.96	1.97	5.55	03/01/2024
<i>Blmbg. U.S. Aggregate</i>		1.10	7.30	7.30	4.66	-0.36	1.99	2.01	5.60	
Dodge & Cox Income	6.47	1.28	8.32	8.32	6.06	1.05	3.42	3.35	5.52	02/01/2024
PGIM Total Return Bond R6	6.34	1.14	7.79	7.79	6.17	0.15	2.76	3.01	5.49	02/01/2024
<i>Blmbg. U.S. Aggregate</i>		1.10	7.30	7.30	4.66	-0.36	1.99	2.01	4.57	
Voya Intermediate Bond	3.42	1.07	7.62	7.62	5.85	0.16	2.65	2.71	4.38	05/01/2025
<i>Blmbg. U.S. Aggregate</i>		1.10	7.30	7.30	4.66	-0.36	1.99	2.01	3.99	
NYLI MacKay High Yield Corp Bond Fund	2.50	1.26	7.10	7.10	8.71	4.53	5.81	6.14	7.37	02/01/2024
<i>ICE BofA US High Yield Index</i>		1.35	8.50	8.50	10.03	4.50	6.10	6.45	8.72	
Cash Equivalent	2.31	0.98	4.23	4.23	4.65	3.07	2.54	2.03	1.98	10/01/2015
<i>ICE BofA 3 Month U.S. T-Bill</i>		0.97	4.18	4.18	4.81	3.17	2.68	2.18	2.13	
First American Government Obligation - X	2.31	0.98	4.23	4.23	4.81	3.18	2.62	N/A	4.68	02/01/2024
<i>ICE BofA 3 Month U.S. T-Bill</i>		0.97	4.18	4.18	4.81	3.17	2.68	2.18	4.69	

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Calendar Year Comparative Performance

	Performance(%)							
	2024	2023	2022	2021	2020	2019	2018	2017
Total Portfolio	11.04	15.14	-14.89	11.36	13.46	18.61	-4.50	15.22
<i>Blended Benchmark</i>	<i>11.61</i>	<i>15.19</i>	<i>-14.58</i>	<i>12.54</i>	<i>13.07</i>	<i>19.78</i>	<i>-4.18</i>	<i>13.54</i>
Domestic Equity	21.65	24.79	-19.00	23.37	18.54	29.23	-6.15	21.58
<i>Russell 3000 Index</i>	<i>23.81</i>	<i>25.96</i>	<i>-19.21</i>	<i>25.66</i>	<i>20.89</i>	<i>31.02</i>	<i>-5.24</i>	<i>21.13</i>
Columbia Contrarian Core Inst3	23.51	32.21	-18.45	24.45	22.44	33.08	-8.81	21.89
Putnam Core Equity Fund Y	26.47	27.99	-15.87	30.75	17.66	32.50	-7.91	24.01
Schwab US Large-Cap ETF	24.90	26.86	-19.44	26.74	20.90	31.40	-4.52	21.91
<i>S&P 500</i>	<i>25.02</i>	<i>26.29</i>	<i>-18.11</i>	<i>28.71</i>	<i>18.40</i>	<i>31.49</i>	<i>-4.38</i>	<i>21.83</i>
PIMCO RAE US Small Cap Fund	22.08	20.06	-4.64	40.37	6.88	20.22	-11.66	9.27
<i>Russell 2000 Value Index</i>	<i>8.05</i>	<i>14.65</i>	<i>-14.48</i>	<i>28.27</i>	<i>4.63</i>	<i>22.39</i>	<i>-12.86</i>	<i>7.84</i>
<i>Russell 2000 Index</i>	<i>11.54</i>	<i>16.93</i>	<i>-20.44</i>	<i>14.82</i>	<i>19.96</i>	<i>25.53</i>	<i>-11.01</i>	<i>14.65</i>
Columbia Small Cap Growth Inst3	24.45	26.39	-36.51	-2.54	70.41	41.18	-1.92	28.94
Emerald Growth Institutional	19.41	19.06	-24.50	4.04	38.85	28.70	-11.57	28.11
<i>Russell 2000 Growth Index</i>	<i>15.15</i>	<i>18.66</i>	<i>-26.36</i>	<i>2.83</i>	<i>34.63</i>	<i>28.48</i>	<i>-9.31</i>	<i>22.17</i>
<i>Russell 2000 Index</i>	<i>11.54</i>	<i>16.93</i>	<i>-20.44</i>	<i>14.82</i>	<i>19.96</i>	<i>25.53</i>	<i>-11.01</i>	<i>14.65</i>
International Equity	4.22	13.98	-15.85	4.75	14.36	23.80	-15.41	30.23
<i>MSCI AC World ex USA (Net)</i>	<i>5.53</i>	<i>15.62</i>	<i>-16.00</i>	<i>7.82</i>	<i>10.65</i>	<i>21.51</i>	<i>-14.20</i>	<i>27.19</i>
MFS International Growth R6	9.24	14.96	-15.02	9.65	15.82	27.31	-8.79	32.58
<i>MSCI AC World ex USA (Net)</i>	<i>5.53</i>	<i>15.62</i>	<i>-16.00</i>	<i>7.82</i>	<i>10.65</i>	<i>21.51</i>	<i>-14.20</i>	<i>27.19</i>
Fidelity International Index	3.71	18.31	-14.24	11.45	8.17	22.00	-13.52	25.38
<i>MSCI EAFE (net)</i>	<i>3.82</i>	<i>18.24</i>	<i>-14.45</i>	<i>11.26</i>	<i>7.82</i>	<i>22.01</i>	<i>-13.79</i>	<i>25.03</i>
Goldman Sachs GQG Ptnrs Intl Opportunities	5.99	21.25	-11.10	12.49	15.77	27.64	-6.04	31.76
<i>MSCI AC World ex USA (Net)</i>	<i>5.53</i>	<i>15.62</i>	<i>-16.00</i>	<i>7.82</i>	<i>10.65</i>	<i>21.51</i>	<i>-14.20</i>	<i>27.19</i>
Fidelity Emerging Markets Index Fund	6.80	9.50	-20.07	-3.04	17.82	18.26	-14.63	37.65
<i>MSCI EM (net)</i>	<i>7.50</i>	<i>9.83</i>	<i>-20.09</i>	<i>-2.54</i>	<i>18.31</i>	<i>18.42</i>	<i>-14.57</i>	<i>37.28</i>

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Calendar Year Comparative Performance

	Performance(%)							
	2024	2023	2022	2021	2020	2019	2018	2017
Other Growth	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cohen & Steers Inst Realty Shares	6.24	12.72	-24.73	42.47	-2.57	33.01	-3.99	7.45
<i>MSCI US REIT Index</i>	8.75	13.74	-24.51	43.06	-7.57	25.84	-4.57	5.07
Lazard Global Listed Infrastructure Inst	6.71	10.89	-1.30	19.87	-4.48	22.26	-3.73	20.80
<i>MSCI World Core Infrastructure Index (Net)</i>	5.73	4.01	-7.93	17.13	-0.80	26.64	-2.66	19.25
NYLI CBRE Global Infrastructure	7.68	3.96	-6.08	15.22	1.17	28.46	-6.56	20.48
<i>FTSE Global Core Infrastructure 50/50 Index (Net)</i>	9.53	2.21	-4.87	14.88	-4.06	25.13	-3.99	18.39
Fixed Income	2.22	6.91	-12.23	-0.72	7.27	8.22	-0.42	5.05
<i>Blmbg. U.S. Aggregate</i>	1.25	5.53	-13.01	-1.55	7.51	8.72	0.01	3.54
Baird Aggregate Bond Inst	1.85	6.43	-13.35	-1.46	8.63	9.48	-0.30	4.20
iShares Core US Aggregate Bond ETF	1.37	5.59	-13.06	-1.67	7.42	8.68	-0.05	3.53
Dodge & Cox Income	2.26	7.70	-10.86	-0.91	9.45	9.73	-0.31	4.36
PGIM Total Return Bond R6	3.03	7.78	-14.86	-1.15	8.10	11.13	-0.63	6.71
Voya Intermediate Bond	2.93	7.07	-14.16	-0.99	8.22	10.06	-0.25	4.84
<i>Blmbg. U.S. Aggregate</i>	1.25	5.53	-13.01	-1.55	7.51	8.72	0.01	3.54
NYLI MacKay High Yield Corp Bond Fund	7.14	11.97	-7.81	5.35	5.28	13.03	-1.34	6.79
<i>ICE BofA US High Yield Index</i>	8.20	13.46	-11.22	5.36	6.17	14.41	-2.27	7.48
Cash Equivalent	4.73	4.98	1.48	0.02	0.36	2.10	1.72	0.57
<i>ICE BofA 3 Month U.S. T-Bill</i>	5.25	5.02	1.46	0.05	0.67	2.28	1.87	0.86
First American Government Obligation - X	5.19	5.02	1.52	0.03	0.40	2.12	1.74	0.79
<i>ICE BofA 3 Month U.S. T-Bill</i>	5.25	5.02	1.46	0.05	0.67	2.28	1.87	0.86

Returns are gross of investment advisory fees and net of mutual fund fees. Returns are expressed as percentages and for periods over one year are annualized. Asset class level returns may vary from individual underlying manager returns due to cash flows. Total Portfolio returns prior to 1/1/2024 were provided by previous Advisor and believed to be accurate and reliable. Returns for January 2024 were calculated by the legacy performance system of previous Advisor and believed to be accurate and reliable.

Historical Hybrid Composition - PARS Balanced/Moderately Aggressive

Allocation Mandate	Weight (%)
Jul-2025	
Russell 3000 Index	36.0
MSCI AC World ex USA (Net)	18.0
MSCI US REIT Index	3.0
MSCI World Core Infrastructure Index (Net)	3.0
Blmbg. U.S. Aggregate	35.0
ICE BofA US High Yield Index	3.0
ICE BofA 3 Month U.S. T-Bill	2.0
Oct-2012	
S&P 500	32.0
Blmbg. U.S. Aggregate	27.0
Russell 2000 Index	9.0
MSCI EAFE (net)	7.0
ICE BofA 1-3 Yr. Gov/Corp	6.8
Russell Midcap Index	6.0
FTSE 1 Month T-Bill	5.0
MSCI EM (net)	4.0
Wilshire US REIT Index	2.0
ICE BofA US High Yield Index	1.3
Apr-2007	
S&P 500	51.0
Blmbg. U.S. Aggregate	30.0
MSCI EAFE (net)	6.0
ICE BofA 1-3 Yr. Gov/Corp	5.0
FTSE 1 Month T-Bill	5.0
Russell 2000 Index	3.0

Allocation Mandate	Weight (%)
Jul-1986	
S&P 500	60.0
Blmbg. U.S. Aggregate	30.0
ICE BofA 1-3 Yr. Gov/Corp	5.0
FTSE 1 Month T-Bill	5.0

*The benchmark for the PARS Balanced strategy defined above was assigned to the PARS OPEB and Pension Trust Balanced Strategic Blend upon its inception on October 2015

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