Council Meeting: 12/2/2025

Attachment #1

City of Hesperia

STATEMENT
OF
INVESTMENT
POLICY

FISCAL YEAR 2025-26

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CITY OF HESPERIA
STATEMENT OF INVESTMENT POLICY

I. POLICY

This Statement of Investment Policy while conforming to all applicable statutes at the time of adoption is intended to provide guidelines under the "prudent investor" rule, for the investment of public funds, and outline the policies for maximizing the effectiveness and efficiency of Hesperia's cash management system. The goal is twofold: one is to enhance the economic status of Hesperia while preserving its capital resources; the second is to provide guidelines for authorized investments.

II. SCOPE

The City Treasurer is authorized to invest public funds in accordance with California Government Code (CGC) Sections 53600 et seq. and 5922 (d). This investment policy applies to all financial assets and investment activities of the City of Hesperia and includes, but is not limited to, the following funds:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Agency Fund
- Any new fund, unless specifically exempted

This policy, however, specifically excludes employees' retirement, pension and deferred compensation funds. Additionally, moneys held by a trustee or fiscal agent shall be governed by CGC Sections 53601 (m) and 5922 (d).

III. PRUDENCE

All moneys entrusted to the City Treasurer will be pooled in an actively managed portfolio. The City of Hesperia shall participate in standards within the content of the Standard as set forth in CGC Section 53600.3 which states in part:

"When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, a trustee shall act with care; skill and prudence and diligence under the circumstances then prevailing, that a prudent investor acting in 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."

Section 53600.3 of the government code declares each person, treasurer, or governing body authorized to make investment decisions on behalf of local agencies to be a *trustee,* and therefore, a *fiduciary* subject to the *prudent investor standard*. These persons shall act with care, skill and diligence under the circumstances then prevailing when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. Section 53600.5 further stipulates that the primary objective of any person investing funds is to safeguard principal; secondly, to meet liquidity needs; and lastly, to achieve a return or yield on invested funds.

CITY OF HESPERIA
STATEMENT OF INVESTMENT POLICY

IV. OBJECTIVE

The City's treasury management system is designed to monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City attempts to obtain the highest yield available, while investments meet the criteria established for safety, liquidity, and yield, in that order of priority.

A. SAFETY

Safety of principal is the foremost objective of the City of Hesperia. Each investment transaction shall seek to ensure capital losses are avoided, whether from securities default, rating downgrades, broker-dealer defaults, or erosion of market value. The City of Hesperia shall seek the preservation of capital by mitigating two types of risk: credit risk and market risk.

1. Credit risk is the risk of loss due to failure of the issuer and is mitigated by investing in safe securities, and diversifying the investment portfolio so the failure of any one issuer would not materially affect the cash flow of the City.

2. Market risk is the risk of market value fluctuations due to changes in the general level of interest rates, and shall be mitigated by limiting the average maturity of the City's investment portfolio to three and one-half years, and the maximum maturity of any one security to five years. Market risk shall also be mitigated by structuring the portfolio so maturing securities match cash outflows, eliminating the need to sell securities prior to their maturity, and to avoid taking positions in securities for the purpose of selling those securities within a short period of time in order to realize a short term profit. It is recognized that within a diversified portfolio, occasional measured losses are inevitable, and must be considered within the context of the overall return on the investment.

B. LIQUIDITY

The City of Hesperia's investment portfolio will remain satisfactorily liquid to enable the City to meet all anticipated and operating cash flow requirements.

C. MATURITY MATRIX

Maturities of investments will be selected based on liquidity requirements in order to minimize interest rate risk and maximize earnings. Current and expected yield curve analysis will be monitored, and the portfolio will be invested accordingly. As a general investment guideline, the following percentages of the pooled portfolio should be utilized in the investment maturity sectors:

Maturity Range	Suggested Percentage
Less than 1 year	0 to 100%
1 - 3 years	0 to 50%
3 - 5 years	0 to 50%

D. DIVERSIFICATION

The City of Hesperia's investment pool will be diversified to avoid incurring unreasonable and avoidable risks. The investments will be diversified by security type and institution. Regarding specific security types indicated in Section XV of this Investment Policy, no more than 10% of the City's portfolio will be placed with any single private financial institution.

E. RETURN ON INVESTMENTS

The City of Hesperia's investment portfolio shall be designed to attain a market rate of return throughout economic cycles. Whenever possible with respect to budgetary and cash flow requirements, and consistent with risk limitations and prudent investment principles, the City Treasurer shall seek to augment returns above the market rate of return.

V. MAXIMUM MATURITIES

The City of Hesperia will match its investments with anticipated cash flow requirements. Per California Government Code Sections 53601 et seq., maximum maturities shall not exceed five (5) years. An investment's term or remaining maturity shall be measured from the settlement date to final maturity. A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment. The average maturity of funds should not exceed 1,275 days (3.5 years), and the cash flow requirements shall prevail at all times.

VI. PERFORMANCE STANDARDS

The City's investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the City of Hesperia's investment risk constraints and cash flow requirements.

The City of Hesperia will operate in an active capacity in the investment strategy. The benchmark to be used by the City Treasurer to determine whether market yields are achieved shall be the State of California Local Agency Investment Fund (L.A.I.F.).

VII. DELEGATION AND GRANTS OF AUTHORITY

Management responsibility for the investment program is delegated to the City Treasurer (Assistant City Manager) who shall establish written procedures and policies for the operation of the investment program consistent with this investment policy.

No person shall engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer. The procedures established by the City Treasurer shall contain internal accounting controls specifying delegation and grants of authority for the verification and recording of investment transactions to regulate the activities of subordinate representatives.

In the absence of the City Treasurer, the authority to direct investment transactions affecting City moneys will be restricted to the Deputy Finance Director as to maturity, investment instrument, and dollar size of the investment.

VIII. INVESTMENT COMMITTEE

The City of Hesperia City Council shall act as the investment committee consisting of five (5) Council members to include the Mayor and four (4) Council Members as elected by the people; to provide general oversight and guidance concerning the investment policy related to the management of the City's investment pool. The committee shall meet monthly to review the Treasurer's Cash Report.

IX. ETHICS AND CONFLICT OF INTEREST

The City Treasurer and all investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The City Treasurer and all investment personnel shall disclose to the City Attorney any material financial interests in financial institutions that conduct business within the jurisdiction, and shall disclose any material financial investment positions that could be related in a conflicting manner to the performance of the City of Hesperia's investment portfolio.

The City Treasurer shall complete on an annual basis, State of California Form 721, Statement of Economic Interests Disclosure.

X. SAFEKEEPING AND CUSTODY AGREEMENTS

To protect against potential losses caused by collapse of individual securities dealers, all securities owned by the City shall be kept in safekeeping by a third party bank trust department, acting as agent for the City under the terms of a custody agreement executed by the bank and the City. All securities will be received and delivered using standard delivery versus payment procedures with the City's custodial bank, and evidenced by safekeeping receipts. Custodial statements are reconciled to transaction schedules by the Deputy Finance Director on a monthly basis.

XI. INTERNAL CONTROLS

Separation of duties among the employees involved in investment activities are designed to provide an ongoing internal review to prevent the potential for converting assets or concealing transactions.

Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliations are conducted to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts on a monthly basis.

An independent analysis by an external auditor shall be conducted annually to review internal control, account activity, and compliance with policies and procedures.

XII. FINANCIAL REPORTING

Under provision of Section 53646 of the California Government Code, the City Treasurer may render a quarterly or monthly report to the City Council, providing the type of investment, financial institution from which the investment was purchased, the date of maturity, the date upon which the investment becomes subject to redemption provisions, amount (to include both par and book value) of the investment, and the current market value of all investments. The report shall also include the source of the market value. Additionally, the report shall also include the rate of interest, accrued interest earned, the amortized portion of the investment purchased at a premium or discount, and other data so required by the City Council or by amendment to the above section of California Government Code and its successors. The report shall include a statement denoting the City's ability to meet its expenditure requirements for the following six month period, or an explanation as to why sufficient moneys will not be available. Additionally, the City

Treasurer shall state whether the City is in compliance with its investment policy and shall sign the Treasurer's Report. Pursuant to Section 53607, local agency treasurers to whom the authority to invest or reinvest funds or to sell or exchange securities has been delegated by the legislative body of a local agency are required to submit a monthly report of transactions to the legislative body. The City renders a monthly Treasurer's Report to the City Council.

XIII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City of Hesperia shall transact business only with banks, savings and loan institutions, and registered investment securities dealers, managers, and advisors. The dealers should either be primary dealers authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York, or regional dealers qualifying under the Securities and Exchange Commission Rule 15C3-1.

The City Treasurer shall send a copy of the current Statement of Investment Policy to all dealers approved to do business with the City of Hesperia. Confirmation of the dealer's understanding of the City's investment policy shall be provided in writing by the dealer.

The City Treasurer shall examine financial institutions that wish to perform business with the City, in order to confirm whether the participating financial institutions are satisfactorily capitalized, are market makers in securities appropriate to the City's financial investment universe and agree to comply with the conditions set forth in the City of Hesperia's Statement of Investment Policy.

XIV. COLLATERAL REQUIREMENTS

Collateralization is required for investments of public deposits in Certificates of Deposits (in excess of the FDIC insured amount) and all Repurchase Agreements. In order to reduce market risk, the collateral level will be at least 110% of market value of principal and accrued interest of eligible securities for Certificate of Deposit. The percentage of collateralization on repurchase agreements shall adhere to CGC Section 53601 (i) (2).

In order to conform with provisions of the Federal Bankruptcy Code, which provides for the liquidation of securities held as collateral for Repurchase Agreements, the only securities acceptable as collateral shall be eligible Negotiable Certificates of Deposit, eligible Banker's Acceptances, or securities that are fully guaranteed as to principal and interest by the United States or by any agency of the United States government. All securities held as collateral shall have a maximum maturity of five (5) years.

XV. AUTHORIZED AND ACCEPTABLE INVESTMENTS

The City of Hesperia is subject to California Government Code, Section 53601 et seq. Within the context of the governing language, the following investments are authorized and accepted as defined:

A. United States Treasury Bills, Notes and Bonds - Maximum of 100%
United States Treasury Bills, Notes, and Bonds, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the portfolio, which can be invested in the category.

B. Obligations issued by the Federal Government, State of California or California Local Agency - Maximum of 100%

Obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), Student Loan Marketing Association (SLMA), State of California or California Local Agency. Although there is no percentage limitation on “governmental agency” issues, the prudent investor standard shall apply for a single agency name.

C. Bankers’ Acceptances - Maximum of 25%

Bankers’ Acceptances (BAs) otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of Bankers’ Acceptances shall not exceed 180 days’ maturity or 25% of the market value of the portfolio. No more than 5% of the market value of the portfolio may be invested in Bankers’ Acceptances issued by any one commercial bank.

D. Commercial Paper - Maximum of 15%

Commercial Paper of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO) as set forth in CGC 53601(h). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph 1 or 2:

1. The entity meets the following criteria:
    a) Is organized and operating in the United States as a general corporation.
    b) Has total assets in excess of five hundred million dollars ($500,000,000).
    c) Has debt other than commercial paper, if any, that is rated in a rating category of “A” or its equivalent or higher by an NRSRO.
2. The entity meets the following criteria:
    a) Is organized within the United States as a special purpose corporation, trust, or limited liability company.
    b) Has program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
    c) Has commercial paper that is rated “A-1” or higher, or the equivalent, by an NRSRO.

Commercial Paper purchases shall have a maximum maturity of 270 days or less and cannot exceed 15% of the market value of the portfolio (30% if the dollar weighted average maturity of all commercial paper does not exceed 31 days). Purchase of commercial paper may not exceed 10% of outstanding paper of an issuing corporation pursuant to CGC 53635(a)(2).

E. Negotiable Certificates of Deposit - Maximum of 25%

Negotiable Certificates of Deposit (NCD) issued by a nationally or state-chartered bank or a state or federal savings and loan association. Pursuant to CGC 53601 (i) and 53638, the NCD must meet the following criteria:

1. The deposit should not exceed the shareholder's equity of any depository bank. The shareholder's equity shall be determined in accordance with Section 118 of the Financial Code, but shall be deemed to include capital notes and debentures.

2. The deposit shall not exceed the total of the net worth of any depository savings association or federal association, except that deposits not exceeding a total of five hundred thousand dollars ($500,000) may be made to a savings association or federal association without regard to the net worth of that depository, if such deposits are insured or secured as required by law.

3. The deposit to the share accounts of any regularly chartered credit union shall not exceed the total of the unimpaired capital and surplus of the credit union, as defined by rule of the Commissioner of Financial Institutions, except that the deposit to any credit union share account in an amount not exceeding five hundred thousand dollars ($500,000) may be made if the share accounts of that credit union are insured or guaranteed pursuant to Section 14858 of the Financial Code or are secured as required by law.

4. The deposit in investment certificates of a federally insured industrial loan company shall not exceed the total of the unimpaired capital and surplus of the insured industrial loan company.

Purchases of negotiable certificates of deposits may not exceed 25% of the market value of the portfolio. A maturity limitation of five (5) years is applicable on NCDs.

F. Repurchase Agreements - Maximum of 20%

The City may invest in Repurchase Agreements with banks and dealers with which the City has entered into a Master Repurchase Agreement which specifies terms and conditions of Repurchase Agreements. A signed copy of the Master Repurchase Agreement shall be required from the authorized financial dealer prior to the execution of any applicable transaction. The maturity of Repurchase Agreements shall not exceed one year. The market value of securities used as collateral for Repurchase Agreements shall be monitored daily, and will not be allowed to fall below 102% of the value of the Repurchase Agreement as set forth in CGC Section 53601 (j) (2).

G. Local Agency Investment Fund - Maximum of $75 million per account

The City may invest in the Local Agency Investment Fund (L.A.I.F.) established by the State Treasurer, for the benefit of local agencies, up to the maximum permitted by State law, which is currently $75 million dollars per account. There is no limitation as to the percentage of the portfolio a local agency can invest in L.A.I.F. under CGC 16429.1, which allows a local agency to remit to the Treasurer any money not required for immediate needs and gives the agency the exclusive determination of the length of time its money will be on deposit with the Treasurer.

H. Medium Term Notes - Maximum of 30%

Medium Term Notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, 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. Notes eligible for investment shall be rated in a rating category of "A" or its equivalent or better by an NRSRO. No more than 30% of the market value of the portfolio may be invested in Medium-Term Notes pursuant to CGC 53601 (k), and no more than 10% of the total assets of the investments may be invested in any one issuer's medium term notes pursuant to CGC 53635(a)(2).

I. Mutual and Money Market Funds - Maximum of 20%

Shares of beneficial interest issued by diversified management companies that are funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940, as defined in Section 53601 (l) of the California Government Code. For securities and obligations investments above two hundred fifty thousand dollars ($250,000), the investments must comply with the investment restrictions pursuant to Section 53601 (l), companies shall either:

1. Attain the highest ranking or the highest letter and numerical ranking provided by not less than two NRSROs.

2. Retain an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing mutual funds with assets under management in excess of five hundred million dollars ($500,000,000). The purchase price of shares of beneficial interest purchased pursuant to this section shall not include any commission that these companies may charge and shall not exceed 20% of the agency's moneys that may be invested in mutual funds. In addition, no more than 10% of the agency's funds may be invested in shares of beneficial interest of any one mutual fund. Further, the City may invest only in mutual and money market funds which have an average maturity of 90 days or less per Securities & Exchange Commission regulations.

3. All positions in government-sponsored investment pools and permitted mutual and money market funds (per Sections G and I, above) shall be subject to periodic review by the City Treasurer, or a designee thereof, in order to ensure that the moneys in question are managed in a manner consistent with the standards and objectives set forth elsewhere in this Policy.

While similar to mutual funds, exchange-traded funds (ETFs) are not a permissible investment for local agencies.

J. Collateralized Bank Deposits - Maximum of 10%

The City may invest in collateralized bank deposits in the form of notes, bonds, or other obligations which are at all times secured by a valid first priority security interest. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank which is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or Federal regulations applicable to the types of securities in which the security interest is placed. For purposes of Time Deposits issued by financial institutions, the City may not invest more than 10% of the market value of the portfolio in this category. The maximum term of investment is five (5) years, unless otherwise approved by City Council. To exceed the five-year maturity limit, the authority must be approved by the City Council at least three months prior to the purchase of any security exceeding the five-year maturity limit.

K. Investment Pools - Maximum of 30%
Investment structures other than L.A.I.F., rated AA or higher, incorporating investment pools permitted in California Government Code Sections 53601, 53635, and 5922 (d). Government Code Section 53635 (c) allows the City to invest in commercial paper, debt securities, or other obligations of a public bank, as defined in Section 57600. California Government Code Section 53635.2 added public banks to the list of depository institutions. However, Section 53601 shall apply to investment pools that have the same governing body.

L. Municipal Bonds - Maximum of 10%
The City may invest in bonds issued by a state or local government agency. Bonds eligible for investment shall be rated in a rating category of "A" or its equivalent or better by an NRSRO.

M. Bonds Issued by the City of Hesperia – Maximum of 25%
The City may acquire its own bonds, pursuant to Section 53601 (a) and (d), including bonds payable solely out of the revenues from a revenue–producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

N. Supranational Obligations – Maximum of 30%
Pursuant to Government Code Section 53601 (q), the City may invest in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 30 percent of the City's moneys that may be invested pursuant to this section.

O. Public Bank Obligations – Maximum 100%
Pursuant to Government Code Sections 53601 (r), 53635 (c), and 57603, the City may invest in commercial paper, debt securities, or other obligations of a public bank, as defined in Section 57600. The maximum term of investment is five (5) years.

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Summary of Maximum % Limitations of Investments by Investment Type:
The following summary of maximum percentage limits, by investment type, is established for the City's total pooled funds portfolio:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	100%	None
U.S. & State or Local Agency Securities	5 years	100%	None
Banker's Acceptances	180 days	25%	5%
Commercial Paper	270 days	15%	10%
Negotiable Certificates of Deposit	5 years	25%	None
Repurchase Agreements	1 year	20%	None
Local Agency Investment Fund (LAIF)	N/A	100%	None
Medium-Term Notes	5 years	30%	None
Mutual & Money Market Funds	N/A	20%	10%
Collateralized Bank Deposits	5 years	10%	None
Investment Pools	N/A	30%	None
Municipal Bonds	5 years	10%	None
Supranational Obligations	5 years	30%	None
Public Bank Obligations	5 years	100%	None

XVI. PROHIBITED INVESTMENTS

In accordance with CGC Section 53601.6, the City will not invest any funds in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages. Additionally, the City will not invest any funds in reverse repurchase agreements, mortgage pass-through securities or collateralized mortgage obligations currently permitted under CGC Section 53601. Further, per the Securities and Exchange Commission (SEC), local governments do not qualify as Qualified Institutional Buyers (QIBs) and are not allowed to purchase Rule 144A securities. As such, the City will not invest in Rule 144A securities.

XVII. LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations will be incorporated into the City of Hesperia's Investment Policy, and supersede any and all previous applicable language.

XVIII. INTEREST EARNINGS

All moneys earned and collected from investments authorized in this policy shall be allocated on a quarterly basis to various fund accounts where required by law based on the cash balance in each fund as a percentage of the entire pooled portfolio. However, accounts requiring full liquidity will receive their proportional distribution of moneys based on the lower of pooled or overnight rates.

XIX. LIMITING MARKET VALUE EROSION

The longer the maturity of securities, the greater the potential for market price volatility, therefore, it is the general policy of the City to limit the potential effects from erosion in market values by adhering to the following guidelines:

A. All immediate and anticipated liquidity requirements will be addressed prior to purchasing all investments.

B. Maturity dates for long-term investments will coincide with significant cash flow requirements where possible, to assist with short term cash requirements at maturity.

C. All long-term securities will be purchased with the intent to hold all investments to maturity under then-prevailing economic conditions. However, economic or market conditions may change, making it in the City's best interest to sell or trade a security prior to maturity.

XX. PORTFOLIO MANAGEMENT ACTIVITY

The investment program shall seek to augment returns consistent with the intent of this policy, identified risk limitations and prudent investment principles. The objectives will be achieved by use of the following strategies:

A. Active Portfolio Management Through active fund and cash flow management taking advantage of current economic and interest rate trends, the portfolio yield may be enhanced with limited and measurable increases in risk by extending the weighted maturity of the total portfolio (not to exceed 1,275 days).

B. Portfolio Maturity Management When structuring the maturity composition of the portfolio, the City shall evaluate current and expected interest rate yields and necessary cash flow requirements. It is recognized that in normal market conditions longer maturities produce higher yields. However, the securities with longer maturities also experience greater price fluctuations when the level of interest rates change.

C. Security Swaps The City may take advantage of security swap opportunities to improve the overall portfolio yield. A swap, which improves the portfolio yield, may be selected even if the transactions result in an accounting loss. Documentation for swaps will be included in the City's permanent investment file documents.

D. Competitive Bidding It is the policy of the City to require competitive bidding for investment transactions that are not classified as "new issue" securities. For the purchase of non-"new issue" securities, and the sale of all securities, at least three bidders must be contacted. Competitive bidding for security swaps is also suggested, however, it is understood that certain time constraints and broker portfolio limitations exist which would not accommodate the competitive bidding process. If a time or portfolio constraining condition exists, the pricing of the swap should be verified to current market conditions and documented for auditing purposes.

XXI. INVESTMENT POLICY REVIEW

This Statement of Investment Policy is intended to conform to all applicable statutes at the time of adoption. The Investment Policy shall be reviewed and approved annually by the City Council at a public meeting to ensure consistency with the overall objectives of the preservation of capital, liquidity, and return of the portfolio. The Investment Policy shall also be reviewed to ensure its compliance and relevance to the current law, financial and economic trends, and to meet the cash flow requirements of the City of Hesperia.

Investment operations are reviewed monthly during the reconciliation process of investment transactions to the third party statements, and by the Management Services Department in the proof of cash process. The investment portfolio is audited annually by the City's independent auditors which shall include a review for compliance with the City's Statement of Investment Policy.

XXII. INDEMNIFICATION OF INVESTMENT OFFICIALS

Any investment officer exercising his or her assigned authority with due diligence and prudence, and in accordance with the City's Investment Policy, will not be held personally liable for any individual investment losses or for total portfolio losses.

____________________________________ ______________________
Casey Brooksher Date
City Treasurer, City of Hesperia

CITY OF HESPERIA
STATEMENT OF INVESTMENT POLICY

GLOSSARY

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

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

BID: The price offered by a buyer of securities.

BROKER: A broker brings buyers and sellers together for a commission.

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

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

COLLATERIALIZED MORTGAGE OBLIGATION: A security backed by a pool of pass through rates, structured so that there are several classes of bondholders with varying maturities, called tranches. The principal payments from the underlying pool of pass through securities are used to retire the bonds on a priority basis as specified in the prospectus.

DERIVATIVE: Contracts, such as options and futures, whose price is derived from the price of an underlying financial asset.

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

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per deposit.

FEDERAL FUNDS RATE: The interest rate that banks with excess reserves charge other banks that need overnight loans.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., and 12 regional banks. It is responsible for regulating monetary policy.

INTEREST-ONLY STRIP: A security based solely on the interest payments from a pool of mortgages, Treasury Bonds, or other bonds. Once the principal on the mortgages or bonds has been repaid, interest payments stop and the value of the interest–only strip falls to zero.

INVERSE FLOATER: A derivative instrument whose coupon rate is linked to the market rate of interest in an inverse relationship.

INVESTMENT POOL: The aggregate of all funds from political subdivisions that are placed in the custody of the Treasurer for investment.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size and can be done at those quotes.

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GLOSSARY

MARKET RISK: The risk that the value of investments may decline over a given time period due to economic changes or other events that impact large portions of the market.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, banker's acceptances, etc.) are issued and traded.

MORTGAGE PASS-THRU SECURITY: A security created when one or more mortgage holders form a collection (pool) of mortgages sells shares or participation certificates in the pool. The cash flow from the collateral pool is passed through to the security holder as monthly payments of principal, interest, and prepayments.

PORTFOLIO: Collection of securities held by an investor.

PRUDENT PERSON RULE: An investment standard. The trustee may invest in a security that someone in that same position would seek as reasonable income and preservation of capital.

PUBLIC BANK: a corporation, organized under the Nonprofit Mutual Benefit Corporation Law or the Nonprofit Public Benefit Corporation Law for the purpose of engaging in the commercial banking business or industrial banking business, that is wholly owned by a local agency, local agencies, or a joint powers authority formed pursuant to the Joint Exercise of Powers Act that is composed only of local agencies (California Government Code 57600 (b) (1)).

REPURCHASE AGREEMENTS: An agreement with a commitment by the seller (dealer) to buy a security back from the purchaser (customer) at a specified price at a designated future date.

REVERSE REPURCHASE AGREEMENT: Refers to a repurchase agreement. From the customer's perspective, the customer provides a collateralized loan to the seller.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SOFR: Acronym for "Secured Overnight Financing Rate," which represents a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

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

YIELD: The rate of annual income return on an investment, expressed as a percentage.