



# Request for Proposal For Investment Management Services

## *I. Background and Overview*

The City of East Palo Alto is seeking proposals from interested firms in providing Investment Management Services for its investment portfolio. The value of the portfolio is approximately \$20 million, which is currently placed between the Local Agency Investment Fund (LAIF) and the San Mateo County Investment Pool.

The City has historically managed its own funds using these two investments pools due to its historical cash constraints and inability to invest in long-term investment instruments. Over the years, the City's investment balance has grown to a point where the City can now invest in more long term instruments and improve the current performance of its investments. The City is seeking to the services of a highly qualified investment management firm to provide investment management, investment advisory, and related services to the City.

## *II. Scope of Services*

The overall scope of services is to provide investment management services for the investment of the City's designated idle cash reserves in accordance with the parameters and guidance as outlined in the City's adopted Investment Policy. A copy of the City's 2010 Adopted Investment Policy is included as Attachment A to this RFP.

The City is interested in obtaining the following minimum level of services from the advisor:

1. Provide management and advisory services for the City's investment portfolio.
2. Develop and implement sound investment strategies that will maximize the portfolio's performance within the parameters of the adopted investment policy and California government codes.
3. Provide technical and fundamental market research including yield curve analysis.
4. Provide credit analysis of investment instruments in the portfolio.
5. Provide monthly investment reports for the portfolio detailing holdings, composition and sector analysis, return, weighted average maturity and daily transaction activity. This includes the ability and flexibility for City staff to electronically access current investment information on the City's investment account as needed.
6. Provide semi-annual and annual performance reports, as needed.

7. Review safekeeping and custodial procedures and agreements.
8. At a minimum, semi-annual presentation to the City Council of the performance of the City's portfolio will be required.
9. Review the City's Annual Investment policy and make recommendations that are necessary.

### ***III. Requirements for Selection***

1. Advisor shall be a registered Investment Advisor as defined and regulated by the Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940, and be registered in the State of California.
2. Advisor must provide a copy of the Form ADV, Parts I and II.
3. Advisor shall be either completely independent of any financial institution or securities brokerage firm or shall fully and continuously disclose any such relationships with such financial institution and/or securities brokerage firm relevant to the firm's relationship with the City.
4. Advisor shall have a minimum of ten years of experience in managing state/local government operating and bond funds.
5. Advisor shall demonstrate understanding of the scope of assignment.
6. Advisor shall be familiar with State investments and reporting requirements.
7. Advisor shall have a minimum of \$10 million coverage in errors and omissions insurance or investment advisor professional liability insurance along with any other additional coverage through a fidelity bond and umbrella insurance.

### ***IV. Criteria for Evaluation and Selection***

Proposal will be evaluated using three (3) sets of criteria. Firms meeting the mandatory criteria will have their proposal evaluated and scored for both understanding of the scope of services to be provided, and experience. The following represents the principal selection criteria, which will be considered during the evaluation process.

#### **1. Mandatory Elements**

- a. A firm is independent and licensed to practice in California.
- b. The firm has no conflict of interest with regards to any of the services to be performed by the firm to the City.
- c. The firm adheres to the instructions in the RFP on preparing and submitting response.

**2. Understanding of Scope of Services to be Provided**

- a. Thoroughness of approach to providing investment management and advisory services to the City.
- b. Understanding the City's investment policy requirements and demonstration of investment strategies for carrying out the objectives of the policy.
- c. Variety of investment options and portfolios available to the City.

**3. Experience**

- a. The quality of the firm's professional personnel to be assigned to the engagement.
- b. The firm's past and present experience and performance with comparable government agencies.
- c. Demonstrated knowledge of market factors and economic indicators and their relationships to investment practices.
- d. Understanding of regulatory requirements for investment of public funds.

***V. Time Frame for Selection and Implementation***

- 1. Qualifications and experience will be reviewed together with the proposed fee structure to determine which firm will provide the best value to the City. A recommendation will be made to the City Council based on the above criteria for their approval.
- 2. It is the intent of the City to contract for the services presented herein for a term of three (3) years. The City reserves the right to extend the term of this contract for two (2) additional years subject to the satisfactory negotiation terms, including a price acceptable to both the City and the selected firm.
- 3. Please mail 7 copies of your responses to:  
Stephanie Osaze, Finance Director  
City of East Palo Alto  
2415 University Avenue, 2<sup>nd</sup> Floor  
East Palo Alto, CA 94303

**The written proposals are due by no later than 5:00 p.m., on Friday, April 9, 2010. Proposals postmarked or hand-delivered after the due date will be automatically disqualified.** If you have any questions regarding this RFP, please contact Peter Yee, Sr. Financial Services Manager at 650-853-3115 or [pyee@cityofepa.org](mailto:pyee@cityofepa.org)

Proposals due to City	April 9, 2010
Interview of Finalists	Tentative - Week of May 3rd, 2010
Recommendation to City Council and award contract	Tentative-Month of June 2010

**VI. Format for Proposal**

Please format your response to this request in the following order to facilitate comparisons between respondents:

**A. Organization**

1. Describe the brief history of your organization, including date founded, ownership, and any subsidiary relationships or relationships with other financial institutions.
2. Describe experience of the firm in providing investment management services to the public sector.
3. Describe any SEC regulatory censure or litigation related to services the firm provides.
4. State the dollar value of the assets and the number of portfolios the firm has under direct and continuous management, categorized between public sector and other clients.

	Public Sector	Other Clients
# of Portfolio		
Asset Value (\$M)		

5. Provide the approximate client turnover using the format below:

	2008	2009	YTD 2010
# of accounts gained			
Asset value ( \$M)			
# of accounts lost			
Asset value (\$M)			

6. Provide a list of relevant client references (preferably public sector), including contact persons and telephone numbers. Relevant list would include clients with similar types of jurisdictions, portfolio size, and investment objectives.
7. Describe the type and amount of insurance coverage the firm maintains with respect to investment management activities.

8. Provide a copy of the firm's most recent audited financial statement.

**B. Personnel**

1. Identify the key personnel who would be directly involved in providing services under the engagement. Describe their relationship with the firm, the role they would play in this engagement, their experience in the investment business, specifically with public sector cash management and investments, their professional certification, and their years of service to the firm.
2. Describe actions taken by the firm to keep its investment professionals informed of developments relevant to government investment managers and investments in general.
3. State whether there has been any turnover of key personnel in the firm or additions to staff in the past year.

**C. Investment Management Approach and Discipline**

1. Describe the firm's overall investment philosophy and approach to this engagement.
2. Describe the primary strategies for adding value to a portfolio.
3. Describe the types of investment research the firm utilizes and the methodology used to recommend investment decisions.
4. Describe the firm's procedure for due diligence review, portfolio review, investment management and client contact.
5. Discuss your assessment of the current market outlook and how your firm plans to provide superior performance for clients in the years ahead.
6. Describe procedures used to ensure that the portfolio is in compliance with the client's objectives and policies.

**D. Reporting Capabilities**

1. Submit samples of reports which would be provided and describe their frequency. Reports must be prepared in accordance with Generally Accepted Accounting Principles (GAAP) and in compliance with Government Accounting Standards Board (GASB) pronouncements.
2. Describe the frequency and format of the performance reports that would be provided.
3. Describe the types of benchmarks, which would be included with the performance reports.

**E. Fees**

1. Provide the fee schedule that would apply to this account.
2. Identify any expenses that would not be covered through this fee structure and would be required in order to implement the firm's program.
3. Is there a minimum annual fee?

**F. Other Considerations**

1. Describe any assistance the firm would provide in reviewing custodial and safekeeping arrangements.
2. Describe the type and frequency of credit analysis that would be provided on security issuers and financial institutions.
3. Describe the nature and frequency of meetings the firm would recommend to keep staff informed.
4. Describe expertise and service capability that distinguishes your firm from others.

**Rights and Responsibilities**

The City reserves the right to accept or reject any or all proposals received in response to this request, to negotiate with any qualified source, or to cancel in whole or in part this RFP if it is in the best interest of the City to do so. ***There is no expressed or implied obligation for the City to reimburse responding firms for any expenses incurred in preparing submittals in response to the RFP.***

If terms and conditions of the negotiated contract with the successful firm are breached, the firm may be subject to a financial penalty and/or payment withholding. The breach of contract may serve as a basis for termination of the contract.



**City of East Palo Alto  
INVESTMENT POLICY**

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## CITY AND REDEVELOPMENT AGENCY OF EAST PALO ALTO

### 2010 STATEMENT OF INVESTMENT POLICY

#### **I. PURPOSE**

This statement contains guidelines for the prudent investment of the City's temporarily idle cash in accordance with Government Code sections 53600, ET. seq. and 16481.2. The ultimate goal is to protect the City's pooled cash while producing a reasonable return on investments. Except for cash being held by third party such as proceeds of debt issuance, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment administration. Investment income will be allocated to various funds (as required) based on their respective participation and in accordance with generally accepted accounting principles.

#### **II. OBJECTIVES**

A. All investment management decisions and activities must assure ongoing compliance with all Federal, State and local laws governing the investment of moneys under the control of the City Council. The primary objectives, in priority order, of the City's investment activities shall be:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a) *Credit risk.* This is the risk of loss due to the failure of the security issuer or backer.

Credit risk may be mitigated by:

- Limiting investments to the safest types of securities.
- Determining the credit worthiness of the financial institutions, broker/dealers, and intermediaries with which the City does business.
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

b) *Interest rate risk.* This is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations,

thereby avoiding the need to sell securities prior to maturity;  
and

- Investing operating funds primarily in shorter-term securities.
2. **Liquidity:** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
  3. **Return:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs.

### **III. PRUDENCE**

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Investments shall be made in the context of the “Prudent Investor” rule which states that:

*“All governing boards of Local Agencies or persons authorized to make investment decisions on behalf of the City investing public funds pursuant to Section 53600.3 of the Government code are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the City.”*

### **IV. DELEGATION OF AUTHORITY**

- A. Authority to manage the City’s investment program is derived from California Government Code Sections 53600 *et seq.* The City Council is responsible for the City’s cash management, including the administration of this Investment Policy. Management responsibility for the cash management of City’s funds is hereby delegated to the Finance Director/Treasurer.

The Finance Director/Treasurer may establish written procedures for the operation of the cash management/investment program, consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director/Treasurer. The Finance Director/Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the investment

activities and all employees that perform investment activities. Below list the employees and their investment authority.

- Finance Director - Responsible for cash management and investment of idle funds on a daily basis as required for cash flow purposes pursuant to the requirements of the Statement of Investment Policies.
  - Senior Financial Services Manager - To execute necessary investment documents, and obtain the approval of the Finance Director to authorize wire transfers and execute bank authorizations in the absence of the Finance Director.
  - City Manager or Assistant City Manager - To execute necessary investment documents, authorize wire transfers, execute bank authorization in absence of the Finance Director and Senior Financial Services Manager.
- B. The City may engage the services of one or more external investment managers to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

## **V. ACCEPTABLE INVESTMENT INSTRUMENTS**

All investments shall be made in accordance with Sections 53600 *et seq.* of the Government Code of California and as described within this Investment Policy. Permitted investments under this policy shall include:

1. **U.S. Treasury Instruments** - This category includes bills, notes, bonds or certificate of indebtedness for which the full faith and credit of the United States are pledged for the payment of principal and interest as authorized in Government Code 53601(b). There are no limits on the dollar amount or percentage that the City may invest in U.S. Treasuries.
2. **Federal Agency** or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There are no limits on the dollar amount or percentage that the City may invest in government-sponsored enterprises.
3. **Bankers acceptances** provided that:

- They are issued by institutions with short term debt obligations rated "A1" or higher, or the equivalent, by at least two nationally recognized statistical-rating organization (NRSRO); and have long-term debt obligations which are rated "A" or higher by at least two nationally recognized statistical rating organization;
  - The maturity does not exceed 180 days; and,
  - No more than 40% of the total portfolio may be invested in banker's acceptances and no more than 10% per issuer.
4. **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; and,
  - The maturity of such deposits does not exceed 5 years.
5. **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 portfolio shall be invested in a combination of federally insured and collateralized time deposits;
  - They are issued by institutions which have long-term debt obligations which are rated "A" or higher by at least two nationally recognized statistical rating organization; and/or have short term obligations rated "A1" or higher, or the equivalent, by at least two nationally recognized statistical rating organization; and,
  - The maturity of such deposits does not exceed 5 years.
6. **Negotiable certificates of deposit (NCDs)** provided that:
- They are issued by institutions which have long-term obligations which are rated "A" or higher by at least two nationally recognized statistical rating organization; and/or have short term debt obligations rated "A1" or higher, or the equivalent, by at least two nationally recognized statistical rating organization;
  - The maturity does not exceed five years; and,

- No more than 30% of the total portfolio may be invested in NCDs and no more than 5% per issuer.
7. **Repurchase agreements** collateralized with securities authorized under Sections V(A1-2) of this policy maintained at a level of at least 102% of the market value of the repurchase agreements, provided that:
- The maximum maturity of repurchase agreements shall be 1 year;
  - There is no limit to the amount to be invested in repurchase agreements;
  - Securities used as collateral for repurchase agreements shall be delivered to the City's custodian bank; and,
  - The repurchase agreements are the subject of a master repurchase agreement between the City and the provider of the repurchase agreement.
8. **Commercial paper** provided that:
- The maturity does not exceed 270 days from the date of purchase;
  - The issuer is a corporation organized and operating in the United States with assets in excess of \$500 million;
  - They are issued by institutions whose short term obligations are rated "A1" or higher, or the equivalent, by at least two nationally recognized statistical rating organization; and whose long-term obligations are rated "A" or higher by at least two nationally recognized statistical rating organization; and,
  - No more than 25% of the portfolio is invested in commercial paper and no more than 5% per issuer.
9. **State of California Local Agency Investment Fund (LAIF)**, provided that:
- The State of CA Local Agency Investment Fund (LAIF) pool invests in additional Government Code authorized investments. The Finance Director/Treasurer is authorized to invest in this pool provided they are in conformance with the City's investment policies; and,
  - LAIF's investments in instruments prohibited by or not specified in City's policy do not exclude it from City's list of allowable investments, provided that the fund's reports allow the Finance Director/Treasurer to adequately judge the risk inherent in LAIF's portfolio.
10. **San Mateo County Investment Pool (SMCIP)** provided that:

- The San Mateo County Investment Pool invests in additional Government Code authorized investments. The Finance Director/Treasurer is authorized to invest in this pool provided they are in conformance with the City's investment policies; and,
- SMCIP's investments in instruments prohibited by or not specified in City's policy do not exclude it from City's list of allowable investments, provided that the fund's reports allow the Finance Director/Treasurer to adequately judge the risk inherent in SMCIP's portfolio.

**11. Corporate medium term notes (MTNs), provided that:**

- Such notes have a maximum maturity of five years;
- Are issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States;
- Shall be rated "A" category or better by at least two nationally recognized statistical rating organization; and,
- Holdings of medium-term notes may not exceed 30% of the portfolio and no more than 5% per issuer.

**12. Mortgage pass-through securities and asset-backed securities, provided that:**

- Such securities shall have a maximum stated final maturity of five years;
- Shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by at least two nationally recognized statistical rating organization;
- Shall be rated in a rating category of "AA" or its equivalent or better by at least two nationally recognized statistical rating organizations.
- Purchase of securities authorized by this subdivision may not exceed 20% of the portfolio.

**13. Money market mutual funds that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940:**

- Provided that such funds meet either of the following criteria:

1. Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations; or,
  2. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California Government Code Section 53601 (a through j) and with assets under management in excess of \$500 million.
- Purchase of securities authorized by this subdivision may not exceed 20% of the portfolio. And the maximum percentage of the investment portfolio in any one money market mutual fund is 10%

**14. Individual Placement of Deposits**

Individual placement of negotiable, collateralized, and other time certificates of deposit with eligible financial institutions shall be based on the following practices and procedures:

- Unless collateralized by eligible securities as provided in Sections 53651 and 53652 of the Government Code, the maximum amount of Certificates of Deposit to be placed with any single institution is \$100,000.

**VI. RESTRICTION ON INVESTMENT POLICIES AND CITY CONSTRAINTS**

Section 53600 et. seq. of the State of California Government Code outlines the collateral requirements for certain types of investments and also limits the percentage of total investments that can be placed in certain classifications. Investments must meet the time schedules as indicated by the cash flow projections of the City. Investments will ordinarily be held until maturity unless an advantageous exchange or profit can be made. In such cases, a documented analysis will be prepared and approved by the Finance Director/Treasurer and City Manager. Any such analysis will be included and highlighted in the Quarterly Investment Report to Council. Forecasts or speculation regarding interest rates will not influence investment decisions. The actual level of interest rates at any given time weighed with the soundness of the institution or investment instrument will be the primary basis of consideration.

**VII.MATURITY LIMIT**

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In addition to the risks associated with the credit-worthiness of the financial institution and the security of the investment vehicle, the maturity period of investments is also a significant consideration in the management of the City's portfolio. In order to minimize the impact of market risk, it is intended that all investments will be held until maturity. Investments may be sold prior to maturity for cash flow or appreciation purposes; however, no investment shall be made based solely on yields resulting from anticipated capital gains.

Also, except for debt proceeds (which are considered segregated investments), the maximum maturity for any one investment shall not exceed five years unless authority for such investment is expressly granted in advance by the City Council.

### **VIII. INVESTMENT REPORTING**

Under the provisions of section 53646 of the California Government Code, the Finance Director/Treasurer may prepare and submit an investment report to the City Council within 30 days of the end of the quarter. Although the investment report is not required, the City shall continue to prepare an investment report quarterly. This report will include the following elements relative to the investments held at the end of the quarter.

1. Face value.
2. Security description.
3. Coupon rate.
4. Maturity date.
5. Investment rating.
6. Investment type.
7. Purchase date.
8. Cost of security.
9. Purchase yield.
10. Estimated market value.
11. Amortized premium/discount.
12. Listing of investment by maturity.

13. Statement relating the report to the Statement of Investment Policy.
14. Statement that there are sufficient funds to meet the next six months' obligations.

**IX. INVESTMENT POLICY REVIEW AND ADOPTION**

The Statement of Investment Policy is no longer required by state law; however the City will continue to review and adopt an investment policy annually. The policy may be reviewed at least annually to ensure its consistency with the overall objectives of the City and its relevance to current law and financial and economic trends. Any modifications made thereto must be approved by the City Council.

**Adopted by the City Council on:**

## GLOSSARY OF INVESTMENT TERMS

**Asset-backed security.** Bonds or notes backed by loan paper or accounts receivable originated by a bank or other providers of credit.

**Banker's acceptance.** A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

**Benchmark.** A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

**Broker.** A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

**Certificate of Deposit (CD).** A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

**Collateral.** Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

**Collateralized Mortgage Obligations (CMO).** Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

**Commercial paper.** The short-term unsecured debt of corporations.

**Cost yield.** The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

**Coupon rate.** The rate of return at which interest is paid on a bond.

**Credit risk.** The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

**Current yield.** The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

**Dealer.** A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

**Discount.** The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as **discount securities**. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

**Diversification.** Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

**Duration.** The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates.

**Face Value.** The nominal dollar amount assigned to a security by the issuer.

**Federal funds rate.** The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

**Investment adviser.** A person or organization that manages assets or provides investment advice.

**Issuer.** A company or municipality offering securities for sale to investor.

**Leverage.** Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

**Liquidity:** The speed and ease with which an asset can be converted to cash.

**Local Agency Investment Funds (LAIF)** is an investment fund run by the Treasurer of the State of California to pool local agency investments

**Margin:** The difference between the market value of a security and the loan a broker makes using that security as collateral.

**Market risk.** The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

**Market value.** The price at which a security can be traded.

**Marking to market.** The process of posting current market values for securities in a portfolio.

**Maturity.** The final date upon which the principal of a security becomes due and payable.

**Medium term notes.** Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

**Modified duration.** The percent change in price for a 100 basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

**Money market.** The market in which short term debt instruments (Tbills, discount notes, commercial paper and banker's acceptances) are issued and traded.

**Mortgage pass-through securities.** A securitized participation in the interest and principal cashflows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

**Mutual fund.** An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

**Portfolio.** A collection of investments all owned by an organization or individual.

**Premium.** The difference between the par value of a bond and the cost of the bond, when the cost is above par.

**Realized yield.** The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

**Repurchase agreement (RP, Repo).** Short term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a **reverse repurchase agreement**.

**Safekeeping.** A service to bank customers whereby securities are held by the bank in the customer's name.

**San Mateo County Pool** is an investment fund run by the County Treasurer and, reviewed and approved annually by the County Treasurer Oversight Committee and the County Board of Supervisors.

**Structured note.** A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

**Time Deposit.** Savings account or CD held in financial institution for a fixed term or with the understanding that the customer can withdraw only by giving advanced notice.

**Total rate of return.** A measure of a portfolio' performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value, and includes interest earnings and realized and unrealized gains and losses on the portfolio.

**U.S. Treasury obligations.** Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

**Treasury bills.** All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills. The Treasury currently issues three- and six-month Tbills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

**Treasury notes.** All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.

**Treasury bonds.** All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

**Volatility.** The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

**Yield to Maturity.** The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.