

# City of Riverside

## Statement of Investment Policy

### I. Introduction

In accordance with the Charter of the City of Riverside (“the City”) and under authority granted by the City Council, the Chief Financial Officer (“CFO”) is designated the responsibilities of the Treasurer and is responsible for investing the unexpended cash in the City Treasury. The intent of this Investment Policy is to formalize the framework for the investment activities that shall be exercised to ensure the effective and judicious fiscal and investment management of the City’s funds. The City’s portfolio shall be designed and managed in a manner that will provide a market rate of return consistent with the public trust and the prioritized objectives of safety, liquidity, and return.

### II. Governing Authority

The City’s investment program shall be managed in conformance with federal, state, and other legal requirements, including California Government Code Sections 16429.1-16429.4, 53600-53609, and 53630-53686. This Investment Policy was endorsed and adopted by the City Council and is effective XXXXXX XX, 2020. This Investment Policy shall replace all previous versions.

### III. Scope

The investment policy applies to all financial assets of the City as accounted for in the Comprehensive Annual Financial Report (“CAFR”). Policy statements outlined in this document focus on the City’s pooled funds, but will also apply to all other funds under the City Treasurer’s control unless specifically exempted by resolution.

Proceeds arising from the issuance of debt shall be invested in accordance with the provisions of their governing bond documents and in a manner consistent with the City’s general investment philosophy as outlined in this Investment Policy.

With the exception of monies held in certain restricted and special funds, the City commingles its investable assets to maximize interest earnings and to increase efficiencies with respect to investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on their respective percentage participation in the total fund and in accordance with generally accepted accounting principles.

### IV. Objectives

The prioritized objectives of the City’s investment program are to preserve principal (safety), ensure sufficient liquidity (liquidity), and generate a market rate of return (return).

1. **Safety:** Safety of principal is the foremost investment objective of the City’s investment program. Investment shall be undertaken in a manner designed to ensure the preservation of capital in overall portfolio growth. The City shall seek to preserve principal by mitigating credit risk and interest rate risk.
2. **Liquidity:** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Because not all liquidity needs can be anticipated, the investment portfolio shall focus on securities with active secondary and resale markets.
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 of safety and liquidity.

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Set forth in Section XV of this Investment Policy are certain strategies and principles utilized by the City to manage investment risks.

#### **V. Standard of Care**

The standard of prudence to be used by City investment officials shall be the “Prudent Investor Standard” and shall be applied in the context of managing the overall portfolio. As set forth in the California Government Code 53600.3, the Prudent Investor Standard states:

“...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.”

Consistent with the objectives set forth in section IV of this Investment Policy, in addition to safeguarding invested principal and ensuring sufficient liquidity for the City, a prudent investor should also seek to optimize return or yield subject to these constraints.

#### **VI. Indemnification**

The CFO and other authorized persons responsible for managing City funds, acting in accordance within written procedures and the intent and scope of this Investment Policy and exercising due diligence, shall be relieved of personal liability for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

#### **VII. Ethics and Conflicts of Interest**

Officers and employees of the City involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial investment decisions. In addition, the CFO is required to annually file applicable financial disclosures as required by the Fair Political Practices Commission.

#### **VIII. Delegation of Authority**

The authority to manage the City's investment program is provided by the California Government Code Sections 53600 *et seq.* Pursuant to the Government Code, the City Council may delegate to the Treasurer/CFO for a one-year period the authority to invest or to reinvest all funds of the City. The CFO shall establish procedures for the operation consistent with this investment policy. The CFO may authorize other Finance Department staff to initiate investment transactions. All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

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.

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#### **IX. Investment Committee**

An investment committee consisting of the Finance Committee Chair, a representative of the City Manager's office, and a representative from the Public Utilities Department shall be established to provide general oversight and direction concerning policy related issues concerning management of the City's investment pool. The CFO shall not be a member of the committee but will serve in a staff and advisory capacity. The committee shall meet on a quarterly basis unless circumstances require more frequent meetings.

#### **X. Authorized Financial Institutions, Depositories, Broker Dealers, and Competitive Transactions**

The City shall maintain a list of financial institutions and depositories authorized to provide investment services. In addition, the City shall maintain a list of approved security broker/dealers selected by conducting a process of due diligence. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission ("SEC") Rule 15C3-1 (uniform net capital rule).

A. The CFO will determine which financial institutions are authorized to provide investment services to the City. Institutions eligible to transact investment business with the City include:

1. Primary government dealers as designated by the Federal Reserve Bank
2. Regional broker/dealers qualified under SEC Rule 15C3-1
3. Nationally or state-chartered banks
4. The Federal Reserve Bank
5. Direct issuers of securities eligible for purchase

B. Investment staff shall review broker/dealers who would like to transact with the City to determine if they are adequately capitalized and make markets in the securities appropriate to the City's needs. The CFO shall send a copy of the current investment policy to all broker/dealers approved to transact with the City. Financial institutions which desire to become qualified broker/dealers for investment transactions (and which are not transacting solely through an investment advisor) must provide the City with a statement certifying that the institution has reviewed the California Government Code Section 53600 et seq. and the City's Investment Policy. The selection of broker/dealers shall be at the sole discretion of the City.

C. Selection of broker/dealers used by an external discretionary investment adviser retained by the City will be at the sole discretion of the investment adviser, provided such broker/dealers meet all of the requirements as set forth herein.

D. Public deposits will be made only in qualified public depositories as established by State statutes. Deposits will be insured by the Federal Deposit Insurance Corporation (FDIC), or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with state statutes. A written contract of deposit of public funds must be obtained from the financial institution, indicating the institution's policy and process of FDIC insurance and collateralization.

E. It is the policy of the City to require competitive bidding from at least three broker/dealers for investment transactions that are not classified as "new issue" securities whenever possible and practical. Such competitive

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bidding can be executed through a competitive bidding or through the use of a nationally recognized trading platform.

#### **XI. Security Safekeeping and Delivery Procedures**

**Third-Party safekeeping:** To protect against fraud, embezzlement, or losses caused by collapse of an individual securities dealer and to enhance access to securities and interest payments, all securities owned by the City shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of a duly executed custody agreement. In connection with the City's annual independent audit, securities held in custody are audited to verify investment holdings. All exceptions to this safekeeping policy must be approved by the City Treasurer in written form and included in monthly reporting to City Council.

**Delivery-Versus-Payment:** All trades of marketable securities shall be cleared and settled on a standard delivery-versus-payment ("DVP") basis to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

#### **XII. Internal Controls**

The CFO is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse. The internal control structure will be designed to provide reasonable assurance that these objectives are met. In general, the separation of portfolio management and record keeping between the City Treasurer's Office and the Controller's Office is designed to provide an ongoing internal review to prevent the potential for converting assets or concealing transactions. In addition, existing procedures require all wire transfers initiated by the Finance Division-Treasury Section be reconfirmed by the appropriate financial institution to non-Treasury staff. 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 by the Controller's office on a monthly basis. Furthermore, an independent analysis by an external auditor shall be conducted annually to review internal control, account activity, and compliance with policies, procedures, and applicable laws.

#### **XIII. Authorized Investments**

The investment of City funds shall be made in accordance with the Sections 53600 et seq. of the California Government Code and in accordance with this Investment Policy. Permitted investments for the City shall include the following security types and related credit quality, maturity, and diversification constraints.

1. **Municipal Bonds:** Bonds issued by the City, the State of California, any other of the 49 states in addition to California, and any local agency within the state of California. This authorization includes the ability to invest in obligations payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or any local agency in the state of California or by a department, board, agency, or authority of a state or any local agency in the state of California.

**Credit Quality:** Securities in this category shall have a minimum credit rating in a rating category of A (or its equivalent) by at least one nationally recognized statistical rating organization at the time of purchase.

**Maximum Maturity:** Five years at the time of purchase.

**Diversification:** No more than 5% of the portfolio may be invested in any single issuer. No more than 30% of the portfolio may be invested in this category.

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2. **U.S. Treasury Obligations:** United States Treasury bills, notes, bonds, and certificates of indebtedness or those for which the faith and credit of the United States are pledged for the payment of principal and interest.  
  
**Credit Quality:** No minimum credit rating required for securities in this category.  
  
**Maximum Maturity:** Five years at the time of purchase.  
  
**Diversification:** There are no dollar or percentage limits on securities in this category.
3. **Federal Agency Obligations:** 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.  
  
**Credit Quality:** No minimum credit rating required for securities in this category.  
  
**Maximum Maturity:** Five years at the time of purchase.  
  
**Diversification:** No more than 25% of the portfolio may be invested in any single Agency/GSE issuer.
4. **Bankers' Acceptances:** Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.  
  
**Credit Quality:** Must be issued by organizations having short-term debt obligations rated A-1 (or the equivalent) or better and long-term debt obligations rated in a rating category of A (or the equivalent) or better by at least one nationally recognized statistical rating organization.  
  
**Maximum Maturity:** 180 days at the time of purchase.  
  
**Diversification:** No more than 5% of the portfolio may be invested in any single issuer. No more than 10% of the portfolio may be invested in this category.
5. **Commercial Paper:** Commercial paper of "prime" quality and issued by a corporation organized and operating in the United States with total assets of at least \$500 million.  
  
**Credit Quality:** Securities in this category must be rated "A-1" (or the equivalent) or higher by at least one nationally recognized statistical rating organization. In addition, debt other than commercial paper (if any) issued by corporations in this category must be rated at least in a rating category of "A" (or the equivalent) or better by at least one nationally recognized statistical rating organization.  
  
**Maximum Maturity:** 270 days at the time of purchase.  
  
**Diversification:** No more than 5% of the City's portfolio may be invested in any single issuer. For purposes of this issuer limitation, holdings of commercial paper shall be combined with holdings of medium-term corporate notes as set forth in subsection 12 hereto. No more than 25% of the total portfolio may be invested in this category. No more than 10% of the outstanding commercial paper of any single issuer may be purchased.
6. **Federally Insured Time Deposits:** Non-negotiable certificates of deposit in state or federally chartered banks, savings and loans, or credit unions.  
  
**Credit Quality:** Securities in this category shall be limited to the maximum amount covered by federal deposit insurance.  
  
**Maximum Maturity:** Five years at the time of purchase.

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**Diversification:** No more than 5% of the portfolio may be invested in any single issuer of non-negotiable or negotiable certificates of deposit. No more than 15% of the portfolio may be invested in any combination of non-negotiable certificates of deposit as set forth in subsections 6, 7, and 8 hereto. No more than 30% of the portfolio may be invested in any combination of non-negotiable or negotiable certificates of deposit.

7. **Collateralized Time Deposits:** Non-negotiable certificates of deposit in state or federally chartered banks, savings and loans, or credit unions in excess of federal deposit insurance limits which are fully collateralized in accordance with state law.

**Credit Quality:** Securities in this category exceeding federal deposit insurance limits shall be collateralized in accordance with state law and be issued by institutions which have long-term debt obligations rated in a rating category of "A" (or the equivalent) or better and short-term debt obligations, if any, rated "A-1" (or the equivalent) or better by at least one nationally recognized statistical rating organization.

**Maximum Maturity:** Five years at the time of purchase.

**Diversification:** No more than 5% of the portfolio may be invested in any single issuer of non-negotiable or negotiable certificates of deposit. No more than 15% of the portfolio may be invested in any combination of non-negotiable certificates of deposit as set forth in subsections 6, 7, and 8 hereto. No more than 30% of the portfolio may be invested in any combination of non-negotiable or negotiable certificates of deposit.

8. **Certificate of Deposit Placement Services:** Non-negotiable certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that that uses a private sector entity to assist in the placement of deposits (e.g., CDARS).

**Credit Quality:** The full amount of each deposit and the interest that may accrue on each such deposit shall at all times be insured by federal deposit insurance.

**Maximum Maturity:** Five years at the time of purchase.

**Diversification:** No more than 5% of the portfolio may be invested in any single issuer of non-negotiable or negotiable certificates of deposit. No more than 15% of the portfolio may be invested in any combination of non-negotiable certificates of deposit as set forth in subsections 6, 7, and 8 hereto. No more than 30% of the portfolio may be invested in any combination of non-negotiable or negotiable certificates of deposit.

9. **Negotiable Certificates of Deposit:** Negotiable certificates of deposit 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 a federally licensed or state-licensed branch of a foreign bank.

**Credit Quality:** Securities in this category exceeding federal deposit insurance limits shall be issued by institutions which have long-term debt obligations rated in a rating category of "A" (or the equivalent) or better and short-term debt obligations, if any, rated "A-1" (or the equivalent) or better by at least one nationally recognized statistical rating organization.

**Maximum Maturity:** Five years at the time of purchase.

**Diversification:** No more than 5% of the portfolio may be invested in any single issuer of non-negotiable or negotiable certificates of deposit. No more than 30% of the portfolio may be invested in any combination of non-negotiable or negotiable certificates of deposit.

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10. **Repurchase Agreements:** Repurchase agreements with specific terms and conditions may be transacted with banks and brokers. Such investments must be subject to a “Master Repurchase Agreement” substantially in the form developed by the Securities Industry and Financial Markets Association (“SIFMA”).

**Credit Quality:** Repurchase agreements shall be collateralized with U.S. Treasury and Federal Agency securities (as authorized herein) maintained at a value of at least 102% of the market value of the repurchase agreement. Securities used as collateral for repurchase agreements shall be delivered to the City’s custodian bank.

**Maximum Maturity:** 1 year at the time of entry.

**Diversification:** There are no dollar or percentage limits on securities in this category.

11. **Reverse Repurchase Agreements:** Reverse repurchase agreements with specific terms and conditions may be transacted with banks and brokers. Such investments must be subject to a “Master Repurchase Agreement” substantially in the form developed by the Securities Industry and Financial Markets Association (“SIFMA”). The City may enter into reverse repurchase agreements only to fund short-term liquidity needs.

**Credit Quality:** Securities sold pursuant to a reverse repurchase agreement must have been owned and fully paid for by the City for a minimum of 30 days prior to sale.

**Maximum Maturity:** The maximum maturity of reverse repurchase agreements shall be 92 days. Funds obtained or funds within the portfolio of an equivalent amount to that obtained from selling a security to a counterparty using a reverse repurchase agreement shall not be used to purchase another security with a maturity greater than the term of the reverse repurchase agreement.

**Diversification:** Amounts in this category shall not exceed 20% of the value of the portfolio as specified in California Government Code Section 53601.

12. **Medium-Term Corporate Notes:** Medium-term corporate notes shall mean all corporate and depository institution debt securities 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.

**Credit Quality:** Securities in this category shall be rated in a rating category of “A” or its equivalent or better by at least one nationally recognized statistical rating organization at the time of purchase.

**Maximum Maturity:** Five years at the time of purchase.

**Diversification:** No more than 5% of the portfolio may be invested in any single issuer. No more than 30% of the portfolio may be invested in this category.

13. **Money Market Mutual Funds:** Money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15U.S.C. Sec. 80a-1 et seq.) meeting the credit quality requirements set forth below or retaining an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

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**Credit Quality:** Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

**Maximum Maturity:** No maturity restrictions apply.

**Diversification:** No more than 20% of the portfolio may be invested in this category.

14. **Mutual Funds:** Mutual funds that invest in securities authorized by California Government Code Section 53601 meeting the credit quality requirements set forth below or retaining 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, and with assets under management in excess of five hundred million dollars (\$500,000,000).

**Credit Quality:** Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

**Maximum Maturity:** No maturity restrictions apply.

**Diversification:** No more than 20% of the portfolio may be invested in this category. No more than 10% of the portfolio may be invested in any one mutual fund.

15. **Mortgage Pass-Through and Asset-Backed Securities:** Mortgage pass-through securities, collateralized mortgage obligations, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bonds not defined in sections 2 and 3 of the Authorized Investments section of this policy, meeting the requirements set forth below.

**Credit Quality:** Securities eligible for investment under this section shall be rated in a rating category of "AA" or its equivalent or better by a nationally recognized statistical rating organization.

**Maximum Maturity:** Five years at the time of purchase.

**Diversification:** No more than 5% of the portfolio may be invested in any single issuer. No more than 20% of the total portfolio may be invested in this category.

16. **State of California Local Agency Investment Fund:** The State of California Local Agency Investment Fund ("LAIF") managed by the State of California Treasurer's Office.

**Credit Quality:** No credit rating requirements exist for LAIF. In addition, should LAIF invest in securities or instruments prohibited or not specifically authorized by the City's Investment policy, the City is not prohibited from investing in LAIF provided sufficient information is available to allow the City to understand the risks associated with investing in LAIF.

**Maximum Maturity:** No maturity restrictions apply.

**Diversification:** The City may invest up to the maximum amount permitted by LAIF.

17. **Joint Powers Authority Pools:** Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in securities authorized by California Government Code Section 53601 and that has retained an investment adviser that is registered or exempt from registration with the Securities and Exchange Commission having not less than five years of experience investing in the securities and obligations authorized in the appropriate subdivisions of the California Government Code Section 536601 and having at least five hundred million dollars (\$500,000,000) under management.

**Credit Quality:** There are no credit rating requirements for Joint Powers Authority Pools.



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**Maximum Maturity:** No maturity restrictions apply.

**Diversification:** The City may invest up to the maximum amount permitted by California law.

18. **Supranational Securities:** 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 eligible for purchase and sale within the United States.

**Credit Quality:** Securities in this category shall be rated in the “AA” category or better by at least one nationally recognized statistical rating organization at the time of purchase.

**Maximum Maturity:** Five years at the time of purchase.

**Diversification:** No more than 10% of the portfolio may be invested in any single issuer. No more than 30% of the portfolio may be invested in this category.

**Note on Credit Quality Requirements:** 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.

**Note on Maximum Maturity Limitation:** The five year maturity limitation of this Investment Policy may be extended if deemed prudent by the City Treasurer to (a) match the segregated investment portfolio of bond reserve funds with the maturity schedule of individual bond issues as may be provided for in the related bond documents, (b) match funds reserved for the San Onofre Nuclear Generating Station Decommissioning Account to the term of the operating license, and (c) invest restricted endowment funds (such as the library) that are contributed to the City. Such funds may be invested for up to ten years.

**Note on Diversification Requirements:** The diversification requirements set forth above 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.

**Note on Other Requirements:** 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.

### **XIV. Prohibited Investments and Practices**

Provided below are certain prohibited investments and investment practices intended to help safeguard invested balances.

1. In accordance with California Government Code section 53601.6, investments in inverse floaters, range notes, mortgage-derived interest-only strips, and any security that could result in zero interest accrual if held to maturity are prohibited.
2. Investments not specifically described herein are prohibited.

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3. The purchase or sale of securities on margin is prohibited.
4. The purchase of securities denominated in foreign currencies is prohibited.
5. The purchase or sale of securities done solely to speculate on the direction of future interest rates is prohibited.

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, any such monies shall be reinvested only as provided for in this policy.

### **XV. Investment Pools/Mutual Funds**

The City shall conduct a thorough investigation of any pool or mutual fund prior to making an investment, and on a continual basis thereafter. City staff shall develop a questionnaire which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

### **XVI. Managing Portfolio and Investment Risks**

Safety of principal is the foremost investment objective of the City. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker/dealer default, or erosion of market value. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio, it must be recognized that occasional measured losses are inevitable and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented. The City shall seek to preserve principal by mitigating credit risk and market risk as set forth below.

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

1. Adhering to the diversification requirements set forth in Section XIII of this policy which limit the amount of the total portfolio that may be invested in any single issuer.

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2. Utilizing an active management strategy that allows for the sale of securities prior to their scheduled maturity dates for purposes of improving the portfolio's credit quality, liquidity, or yield in response to changing market conditions or City circumstances.
3. Reviewing downgraded securities. 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.
4. Monitoring any downgraded securities. 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.

**Mitigating Market Risk:** Market risk is the risk that the value of a security or portfolio will fluctuate due to changes in the general level of interest rates. The City understands that while longer-term portfolios have the potential to generate higher investment returns over time, they also exhibit a greater volatility of return. In addition, the City further recognizes certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded call options, will affect the market risk characteristics of the portfolio differently. Accordingly, the City will mitigate market risk by adopting the following strategies:

1. The City shall maintain sufficient balances in short-term investments to provide liquidity for expected and contingent expenditures.
2. Liquidity funds shall be maintained in short-term investments such as LAIF, deposit accounts collateralized in accordance with state law, and money market funds and instruments with minimal market risk.
3. Longer-term securities shall be scheduled to mature in advance of known expenditure requirements whenever possible.
4. The City shall avoid the purchase of securities for the sole purpose of short-term speculation.
5. The maximum stated final maturity of any security in the portfolio shall be five years, except as otherwise stated in this Investment Policy.
6. The maximum percentage of agency callable securities held in the portfolio shall be 20%.
7. The weighted average duration of the actively managed portion of the portfolio, i.e. non liquidity funds, shall be maintained in a range of +/- 25% the duration of a market benchmark as selected by the City based upon the City's risk tolerances and investment objectives.

#### **XVII. Performance Standards & Evaluation**

Consistent with the City's circumstances and risk tolerances, the investment performance objective for the portfolio shall be to earn a total rate of return over market cycles approximately equal to the return on the City's chosen benchmark index.

#### **XVIII. Reporting and Disclosure**

The CFO shall submit quarterly reports to the Council summarizing the status of the current investment portfolio and the individual transactions executed over the last quarter. The report shall be prepared in a

manner which shall allow the City Council to ascertain whether investment activities during the reporting period have conformed to the Investment Policy.

In addition, a comprehensive annual report shall be presented in conjunction with the investment policy review. This report shall include comparisons of the City's return to the benchmark index return, suggest policies and improvements that might enhance the investment program, and include an investment plan for the coming year.

#### **XIX. Policy Review and Adoption**

The City of Riverside's investment policy shall be reviewed at least annually with the Investment Committee to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return as well as its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to City Council for approval. The investment policy shall be readopted by resolution of the City Council as needed, consistent with the above.

Prepared by:

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Edward Enriquez, Chief Financial Officer