RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RIVERSIDE, CALIFORNIA, APPROVING A POLICY FOR THE INVESTMENT OF CITY FUNDS BY THE CITY TREASURER AND REPEALING RESOLUTION NO. 23566.

WHEREAS, Section 705 of the Charter of the City of Riverside provides that the Chief Financial Officer shall have custody of all public funds belonging to or under the control of the City or any office, department or agency of the City government and deposit all funds coming into the City Treasury in such depository as may be designated by resolution of the City Council, or, if no such resolution is adopted, then in such depository designated in writing by the City Manager and in compliance with all provisions of the State Constitution and laws of the state governing the handling, depositing and securing of public funds; and

WHEREAS, on April 21, 2020, the City Council last reviewed and approved the existing City of Riverside Investment Policy by adopting Resolution No. 23566; and

WHEREAS, the Chief Financial Officer has reviewed the proposed Investment Policy and determined that it conforms to, or is more stringent than required by, the California Government Code; and

WHEREAS, the proposed Investment Policy to become effective August 25, 2026, has minor changes from the Investment Policy approved on April 21, 2020.

The changes to the Investment Policy are summarized as follows:

1. Terminology update and Acronym correction for all references to reflect Annual Comprehensive Financial Report (ACFR) for short
2. Commercial Paper Threshold and Maximum Maturity to align with existing sunset provisions in government code
3. Maximum Maturity Date to be calculated from settlement date on all permitted investment security types
4. Prohibited Investments updated to align with changes to government code regarding investments in securities that could result in zero interest accrual.

City Attorney's Office
3900 Main Street
Riverside, CA 92522
(951) 826-5567

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Riverside, California, as follows:

Section 1: The City of Riverside Investment Policy, as set forth in Exhibit A attached hereto, is hereby adopted as the Investment Policy for the City of Riverside, effective August 25, 2026.

Section 2: Resolution No. 23566 is hereby repealed.

ADOPTED by the City Council this _____ day of _______________, 2026.

____
PATRICIA LOCK DAWSON
Mayor of the City of Riverside

Attest:

____
DONESIA GAUSE
City Clerk of the City of Riverside

I, Donesia Gause, City Clerk of the City of Riverside, California, hereby certify that the foregoing resolution was duly and regularly adopted at a meeting of the City Council of said City at its meeting held on the _____ day of _______________, 2026, by the following vote, to wit:

Ayes:

Noes:

Absent:

Abstain:

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City of Riverside, California, this _____ day of _______________, 2026.

____
DONESIA GAUSE
City Clerk of the City of Riverside

312697 SBM 06/11/26

City Attorney's Office
3900 Main Street
Riverside, CA 92522
(951) 826-5567

EXHIBIT "A"
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 upon adoption. 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 Annual Comprehensive Financial Report ("ACFR") -. 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.

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.

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 und 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 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 from the date of settlement.

   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.

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 Unites 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 from the date of settlement.

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

3. **<u>Federal Agency Obligations:</u>** 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 from the date of settlement..

   Diversification: No more than 25% of the portfolio may be invested in any single Agency/GSE issuer.

4. **<u>Bankers' Acceptances:</u>** 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 from the date of settlement.

   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. **<u>Commercial Paper:</u>** 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: 397 days from the date of settlement.

   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. Under a provision sunsetting on January 1, 2031, no more than 40% of the total portfolio may be invested in Commercial Paper if the City's investment assets under management are greater than $100,000,000.

6. **<u>Federally Insured Time Deposits:</u>** 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.

   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 from the date of settlement.

   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 from the date of settlement.

   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 from the date of settlement.

   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.

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 from the date of settlement.

    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 from the date of settlement.

    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).

    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 from the date of settlement.

    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.

    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 from the date of settlement.

    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 from the date of settlement.

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 in any security that could result in zero interest accrual if held to maturity is prohibited. Under a provision sunsetting on January 1, 2031, securities backed by the U.S. Government that could result in zero-interest accrual if held to maturity are permitted.
3. Investments not specifically described herein are prohibited.
4. The purchase or sale of securities on margin is prohibited.
5. The purchase of securities denominated in foreign currencies is prohibited.
6. 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.
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 (based on the date of settlement), 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 yield 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:

____

Edward Enriquez, Chief Financial Officer/City Treasurer

Glossary of Investment Terms

AGENCIES. Shorthand market terminology for any obligation issued by *a government-sponsored entity (GSE),* or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called "FreddieMac" issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "FannieMae," issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as "GinnieMae," issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASKED. The price at which a seller offers to sell a security.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

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.

BID. The price at which a buyer offers to buy a security.

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.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since an issuer issues securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

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. 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.

Debenture. A bond secured only by the general credit of the issuer.

Delivery vs. Payment (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

Derivative. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

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. (See modified duration).

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.

Federal Open Market Committee. A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

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 FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

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 on either 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 (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

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.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO).
A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CD. A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

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

PREPAYMENT SPEED. A measure of how quickly principal is repaid to investors in mortgage securities.

Prepayment Window. The time period over which principal repayments will be received on mortgage securities at a specified prepayment speed.

Primary Dealer. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

Prudent Person (Prudent Investor) Rule. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

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.

Regional Dealer. A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

Repurchase Agreement. 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.

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.

Supranational. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

Total Rate of Return. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in 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 T-bills 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.