

RESOLUTION NO. 2791

A RESOLUTION ADOPTING AN INVESTMENT POLICY FOR THE CITY OF HILLSBORO, AUTHORIZING INVESTMENTS EXCEEDING 18 MONTHS UP TO 5.25 YEARS IN MATURITY AND REPEALING RESOLUTION NO 2755.

WHEREAS, ORS 294.035 prohibits local governments from investing funds unless the governing body has authorized the custodial officer to make such investments; and

WHEREAS, ORS 294.135 states no investment made by the custodial officer shall exceed a maturity of 18 months unless the governing body adopts a written investment policy which, prior to adoption was submitted to the Oregon Short Term Fund Board for review and comment;

NOW, THEREFORE, THE CITY OF HILLSBORO RESOLVES AS FOLLOWS:

Section 1: The City of Hillsboro adopts the attached investment policy with minimal changes as advised by the City's investment advisors and authorizes investments in accordance with that policy; and

Section 2: The attached investment policy has previously been reviewed by the Oregon Short Term Fund Board and the State of Oregon Treasury staff; all of Treasury staff's and Oregon Short Term Fund Board suggestions and comments were incorporated into the policy; and

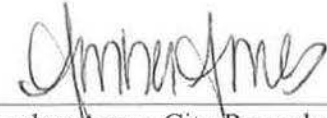
Section 3: This resolution repeals Resolution No. 2755 which previously authorized the investment of City funds.

Section 4. This resolution is effective immediately upon adoption.

Approved and adopted by the Hillsboro City Council at a regular meeting held on the 18th day of October 2022.



Steve Callaway, Mayor

ATTEST: 

Amber Ames, City Recorder



EXHIBIT A
INVESTMENT POLICY
for Non-Pension/Deferred Compensation Funds

Dated October 1999 Resolution # 1985
Readopted October 2000 Resolution #2021
Readopted October 2001 Resolution #2048
Readopted October 2002 Resolution #2071
Readopted October 2003 Resolution #2102
Readopted October 2004 Resolution #2129
Readopted October 2005 Resolution # 2151
Readopted October 2006 Resolution #2187
Readopted October 2007 Resolution # 2226
Readopted July 2008 Resolution # 2264
Readopted September 2009 Resolution #2299
Readopted September 2010 Resolution #2345
Readopted September 2011 Resolution #2386
Readopted September 2012 Resolution #2418
Readopted September 2013 Resolution #2445
Readopted September 2014 Resolution #2475
Readopted September 2015 Resolution #2506
Readopted September 2016 Resolution #2545
Readopted September 2017 Resolution #2573
Readopted September 2018 Resolution #2605
Readopted September 2019 Resolution #2646
Readopted September 2020 Resolution # 2690
Readopted September 2021 Resolution # 2749
Revised and Readopted November 2021 Resolution #2755
Readopted October 2022 Resolution # 2791

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CITY OF HILLSBORO
INVESTMENT POLICY

1.0 INTRODUCTION

The City of Hillsboro, Oregon (hereinafter referred to as the City) was incorporated in 1876 and operates under the council-manager form of government. Policy-making and legislative authority are vested in the governing council, which consists of a mayor and six-member council. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring the City Manager and City Attorney. Hillsboro has a population of 104,000. Downtown Hillsboro is located approximately 18 miles west of the heart of Portland, Oregon.

The average monthly balance of funds invested in the City's general portfolio, excluding proceeds from bond issues, is approximately \$325 million. The highest balances in the portfolio occur in December after property taxes are collected.

The purpose of this Investment Policy is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the prudent management and investment of the funds of the City of Hillsboro.

2.0 GOVERNING AUTHORITY

The investment program shall be operated in conformance with federal, state, and other legal requirements. Specifically, this investment policy is written in conformance with ORS 294.035; 294.040; 294.052; 294.135; 294.145 and 294.810. All funds within the scope of this policy are subject to regulations established by the state of Oregon. Any revisions or extensions of these sections of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted.

This Policy has been adopted by Resolution #2791 by the City Council of Hillsboro, Oregon in October 2022 and replaces the City's previous Resolution # 2755 dated November 2021.

3.0 SCOPE

This policy applies to activities of the City with regard to investing the financial assets of all funds except for funds held in trust for the Pension Portfolio and deferred compensation funds for the employees of the City which have separate rules. In addition, funds held by trustees or fiscal agents are excluded from these rules; however, all funds are subject to regulations established by the State of Oregon. Other than bond proceeds or other unusual situations, the total of all

funds ranges from \$200,000,000 to \$400,000,000. This policy provides direction for the following fund types:

1. General Fund
2. Special Revenue Funds
3. Capital Projects Funds
4. Debt Service Funds
5. Enterprise Funds
6. Internal Service Funds
7. Trust and Agency Funds
8. Other Funds

4.0 OBJECTIVES

As a public entity and institutional investor, the City of Hillsboro has a duty to act in the long-term interest of the community. Applying certain principles in the City's investments will better align the City's investment strategy with the City's broader objectives of and for the community. Therefore, where consistent with the City's fiduciary responsibilities as defined in section 4.1, 4.2 and 4.3, the City will incorporate a broad array of factors when making investment decisions such as environmental considerations, impacts on society, and sustainability. Where possible, the City will seek to make investments that directly support these factors.

The City's primary investment objective is to maximize the long-term value of our investment portfolio while adhering to the factors that impact sustainability and our community. Maximizing the long-term value of City's investment portfolio will allow the City to create added resources to serve our community best and help achieve the City's operational objectives.

The City's principal fiduciary investment objectives are:

4.1 Safety:

- Preservation of capital and protection of investment principal.
- Diversification to avoid incurring unreasonable risks regarding specific security types or individual financial institutions.

4.2 Liquidity:

- Maintenance of sufficient liquidity to meet operating requirements that are reasonably anticipated.

4.3 Yield-Return:

- Attainment of a market value rate of return throughout budgetary and economic cycles.

4.4 Responsibility:

- *The investment program intends to achieve long-term market returns to create added resources to service the community and achieve City's operation objectives. When aligned with the objectives of safety, liquidity and return, consideration of socially responsible investing practices may be applied.*

5.0 STANDARDS OF CARE

5.1 Delegation of Authority

- a. *Governing Body:* The ultimate responsibility and authority for the investment of City funds resides with the City Council. The City hereby designates the Finance Director as the Investment Officer for the City's funds. The Finance Director shall invest City funds in accordance with ORS Chapter 294, Public Financial Administration, and with this Investment Policy. This Policy shall constitute a "written order" from City Council per ORS 294.035. The Finance Director as the Investment Officer, with the consent of the City Manager or designee, may further delegate the authority to invest City funds to additional City Finance personnel.
- b. *Finance Committee:* The City Finance Committee will provide additional guidance and oversight in regards to the annual investment policy review and monthly investment reports.
- c. *Investment Advisor:* Subject to required procurement procedures, the City may engage the support services of outside professionals in regard to its financial program, so long as it can be demonstrated or anticipated that these services produce a net financial advantage or necessary financial protection of the City's resources. External investment advisors shall be subject to Oregon Revised Statutes and the provisions of this Investment Policy. The Advisor shall provide non-discretionary advisory services, which require prior approval from the Finance Director on all transactions.

In order to optimize total return through active portfolio management, resources shall be allocated to the cash management program. This commitment of resources shall include financial and staffing considerations.

5.2 Prudence:

The standard of prudence to be used, by the Finance Director, in the context of managing the overall portfolio is the prudent investor rule which states:

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

The City's Finance Director (ORS 294.004 (2)) and staff acting in accordance with this Investment Policy, written procedures, and Oregon Revised Statutes 294.035 and 294.040 and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price change or other loss in accordance with ORS 294.047.

5.3 Ethics:

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS 244. The City of Hillsboro also maintains written ethics guidelines as well as an internal Ethics Committee.

6.0 TRANSACTION COUNTERPARTIES

The City shall maintain a list of all authorized financial institutions and dealers that are approved for investment purposes. Any firm is eligible to make an application to the Finance Director and upon due consideration and approval, will be added to the list. Additions and deletions to the list will be made at the City's discretion. There should be in place, proof as to all the necessary credentials and licenses held by employees of the brokers/dealers who will have contact with the City of Hillsboro as specified by but not necessarily limited to the Financial Industry Regulatory Authority (FINRA), Securities and Exchange Commission (SEC), etc.

6.1 Broker/Dealers:

The Finance Director shall determine which broker/dealer firms and registered representatives are authorized for the purposes of investing funds within the scope of this investment policy. A list will be maintained of approved broker/dealer firms and affiliated registered representatives. The following minimum criteria must be met prior to authorizing investment transactions. The Finance Director may impose more stringent criteria.

- a. Broker/Dealer firms must meet the following minimum criteria:
 - i. Be registered with the Securities and Exchange Commission (SEC);
 - ii. Be registered with the Financial Industry Regulatory Authority (FINRA).
 - iii. Provide most recent audited financials.
 - iv. Provide FINRA Focus Report filings.

- b. Approved broker/dealer employees who execute transactions with the City must meet the following minimum criteria:
 - i. Be a registered representative with the Financial Industry Regulatory Authority (FINRA);
 - ii. Be licensed by the state of Oregon;

- iii. Provide certification (in writing) of having read; understood; and agreed to comply with the most current version of this investment policy.

- c. If the City's investment advisor is contracted to provide securities transactions on behalf of the City, the advisor's broker/dealer list must be provided to the Finance Director for approval. The Finance Director can assign the responsibility of the broker/dealer due diligence process to the Advisor, and all licensing information on the counterparties will be maintained by the Advisor and available upon request.

The advisor broker/dealer review should include:

- i. FINRA Certification check
- ii. Firm Profile
- iii. Firm History
- iv. Firm Operations
- v. Disclosures of Arbitration Awards, Disciplinary and Regulatory Events
- vi. State Registration Verification
- vii. Financial review of acceptable FINRA capital requirements or letter of credit for clearing settlements.

The advisors must provide the City with any changes to the list prior to transacting on behalf of the City.

- d. Periodic (at least annual) review of all authorized broker/dealers and their respective authorized registered representatives will be conducted by the Finance Director or Investment Advisor.

6.2 Financial Bank Institutions:

All financial banks that provide bank deposits, certificates of deposits or any other deposit of the bank to the City must either be fully covered by the FDIC or the bank must be a participant of the PFCP program. ORS Chapter 295 governs the collateralization of Oregon public funds and provides the statutory requirements for the Public Funds Collateralization Program. Bank depositories are required to pledge collateral against any public funds deposits in excess of deposit insurance amounts. This provides additional protection for public funds in the event of a bank loss. ORS Chapter 295 sets the specific value of the collateral, as well as the types of collateral that are acceptable. ORS Chapter 295 creates a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected.

6.3 Investment Advisors:

An Investment Advisor may be utilized to manage funds and may be selected through a competitive RFP process. The Advisor must meet the following criteria:

- a. The investment advisor firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon; (Note: Investment advisor firms with assets under management > \$100 million must be registered with the SEC, otherwise the firm must be licensed by the state of Oregon);
- b. All investment advisor firm representatives conducting investment transactions on behalf of City must be registered representatives with FINRA;
- c. All investment advisor firm representatives conducting investment transactions on behalf of City must be licensed by the state of Oregon;
- d. Contract terms will include that the Investment advisor will comply with the City's Investment Policy.

A periodic (at least annual) review of all investment advisors under contract will be conducted by the Finance Director to determine their continued eligibility within the portfolio guidelines. The Investment Advisor must notify the City immediately if any of the following issues arise while serving under a City Contract:

- a. Pending investigations by securities regulators.
- b. Significant changes in net capital.
- c. Pending customer arbitration cases.
- d. Regulatory enforcement actions.

6.4 Competitive Transactions:

The Finance Director will obtain telephone, faxed or emailed quotes before purchasing or selling an investment. The Finance Director will select the quote which best satisfies the investment objectives of the investment portfolio within the parameters of this policy. The Finance Director and/or the Investment Advisor will maintain a written record of each bidding process including the name and prices offered by each participating financial institution.

In the instance of a security for which there is no readily available competitive bid or offering on the same specific issue, the Finance Director shall document quotations for comparable or alternative securities.

If the City is using an investment advisor that is providing investment management services they must provide documentation of competitive pricing execution on each transaction. The investment advisor will retain documentation and provide upon request.

7.0 SAFEKEEPING, CUSTODY AND CONTROLS

7.1 Safekeeping of Securities and Delivery vs. Payment:

Securities purchased by the City shall be held in a segregated account for the City's benefit at a third-party trustee as safekeeping agent. Upon request, the safekeeping institution shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16. The approved broker/dealer or investment advisor shall provide the City with a confirmation ticket listing the specific instrument, issuer, coupon, maturity, CUSIP number, purchase or sale price, transaction date, and other pertinent information.

All trades of marketable securities will be executed on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City of Hillsboro's safekeeping institution prior to the release of funds. The City will have online access through the safekeeping bank for verification of the account holdings and transactions.

7.2 Bank Deposits, Savings Accounts and Certificates of Deposit:

The City may hold bank deposits or certificates of deposit at banks qualified under ORS 295.

7.3 Accounting Method:

The City shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies including but not necessarily limited to, the Governmental Accounting Standards Board (GASB); the American Institute of Certified Public Accountants (AICPA); and the Financial Accounting Standards Board (FASB).

Pooling of Funds: Except for cash in certain restricted and special funds, the City will consolidate balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

7.4 Internal Controls:

The Finance Director shall maintain a system of written internal controls which shall be reviewed and tested by the independent auditor at least annually or upon any extraordinary event, i.e., turnover of key personnel, the discovery of any inappropriate activity.

8.0 AUTHORIZED AND SUITABLE INVESTMENTS

8.1 Authorized Investments:

All investments of the City shall be made in accordance with Oregon Revised Statutes: ORS 294.035 (Investment of surplus funds of political subdivisions; approved investments), ORS 294.040 (Restriction on investments under ORS 294.035), ORS 294.135 (Investment maturity dates), ORS 294.145 (Prohibited conduct for Finance Director including not committing to invest funds or sell securities more than 14 business days prior to the anticipated date of settlement), ORS 294.805 to 294.895 (Local Government Investment Pool). Any revisions or extensions of these sections of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted.

8.2 Suitable Investments:

Minimum credit ratings and percentage limitations apply to the time of purchase.

The City is empowered to invest in the following types of securities:

US Treasury Obligations: Direct obligations of the United States Treasury whose payment is guaranteed by the United States. [ORS Section 294.035(3)(a)]

US Agency Obligations: Federal agency and instrumentalities of the United States or enterprises sponsored by the United States Government (GSE) and whose payment is guaranteed by the United States, the agencies and instrumentalities of the United States or enterprises sponsored by the United States Government. [ORS Section 294.035(3)(a)]

Municipal Debt: Lawfully issued debt obligations of the States of Oregon, California, Idaho and Washington and political subdivisions of those states if the obligations have a long-term rating on the settlement date of AA- or better by S&P or Aa3 or better by Moody's or equivalent rating by any nationally recognized statistical rating organization or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization. [ORS Section 294.035(3)(c)]

Corporate Indebtedness: Corporate indebtedness subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)3 of the Securities Act of 1933, as amended. Corporate indebtedness must be rated on the settlement date AA- or better by S&P or Aa3 or better by Moody's or equivalent rating by any nationally recognized statistical rating organization. [ORS Section 294.035(3)(i)]

Commercial Paper: Corporate indebtedness subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)3 of the Securities Act of 1933, as amended. Commercial Paper must be rated A1 by Standard and Poor's or P1 by Moody's or equivalent rating by any nationally recognized statistical rating organization. Issuer constraints for commercial paper

combined with corporate notes will be limited by statute to 5% of market value per issuer. [ORS Section 294.035(3)(i)]

Certificates of Deposit: Certificates of deposit in insured institutions as defined in ORS 706.008, in credit unions as defined in ORS Section 723.006 or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state [ORS Section 294.035(3)(d)].

Bank Time Deposit/Savings Accounts: Time deposit open accounts or savings accounts in insured institutions as defined in ORS Section 706.008, in credit unions as defined in ORS Section 723.006 or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state [ORS Section 294.035(3)(d)(e)].

Bankers' Acceptance: A short-term credit investment created by a non-financial firm and guaranteed by a qualified financial institution whose short-term letter of credit rating is rated in the highest category without any refinement or gradation by one or more nationally recognized statistical rating organizations. [ORS Section 294.035(3)(h)]

Local Government Investment Pool: State Treasurer's local short-term investment fund up to the statutory limit per ORS Section 294.810.

8.3 Collateralization:

Time deposit open accounts, Certificates of Deposit and savings accounts shall be collateralized through the collateral pool for any excess over the amount insured by an agency of the United States government in accordance with ORS 295.015 and ORS 295.018.

9.0 INVESTMENT PARAMETERS

9.1 Diversification:

The City will diversify the investment portfolio to avoid incurring unreasonable risks, both credit and interest rate risk, inherent in over investing in specific instruments, individual financial institutions or maturities.

DIVERSIFICATION CONSTRAINTS ON TOTAL HOLDINGS:

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P, Moody's, or Equivalent NRSRO	Maximum Maturity
US Treasury Obligations	100%	None	N/A	5.25 years
US Agency Obligations	100%	35%	N/A	5.25 years
Municipal Bonds (OR, WA, ID, CA)	25%	5%	AA- / Aa3 Short Term*	5.25 years
Corporate Notes	35%**	5%***	AA- / Aa3	5.25 years
Commercial Paper			A1 / P1	270 days
Bank Time Deposits/Savings	20%	10%	Oregon Public Depository	N/A
Certificates of Deposit	10%	5%	Oregon Public Depository	5.25 years
Banker's Acceptance	25%	5%	A1 / P1	180 days
Oregon Short Term Fund	Maximum allowed per ORS 294.810	None	N/A	N/A

**Short Term Ratings: Moody's - P1/MIG1/VMIG1, S&P - A-1/SP-1, Fitch F1

**35% maximum combined corporate and commercial paper per ORS.

***Issuer constraints apply to the combined issues in corporate and commercial paper holdings.

9.2 Investment Maturity:

The City will not directly invest in securities maturing more than five and a quarter (5.25) years from the date of purchase.

- The maximum weighted maturity of the total portfolio shall not exceed 2 years. This maximum is established to limit the portfolio to excessive price change exposure.
- Liquidity funds will be held in the State Pool or in money market instruments maturing six months and shorter. The liquidity portfolio shall, at a minimum, represent three month budgeted outflows.

Core funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between 1 day and 5.25 years and will be only invested in high quality and liquid securities.

- Total Portfolio Maturity Constraints:

Maturity Constraints	Minimum % of Total Portfolio
Under 30 days	10%
Under 1 year	25%
Under 5.25 years	100%
Maturity Constraints	Maximum of Total Portfolio in Years
Weighted Average Maturity	2.00
Security Structure Constraint	Maximum % of Total Portfolio
Callable Agency Securities	25%

- Exception to 5.25 year maturity maximum: Reserve or Capital Improvement Project monies may be invested in securities exceeding five and a quarter (5.25) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

9.3 Prohibited Investments:

- a. US Agency Mortgage-backed Securities: US agency mortgage-backed securities such as those securities issued by FNMA and FHLMC are not allowed.
- b. Securities Lending: The City shall not lend securities nor directly participate in a securities lending or reverse repurchase program.

10.0 INVESTMENT OF PROCEEDS FROM DEBT ISSUANCE

Investments of bond proceeds are restricted further and will not include corporate bonds in the dedicated bond proceed portfolio. All other allowable investments including: US Treasury, US Agency and Commercial Paper may be utilized. The investments will be made in a manner to match cash flow expectations based on managed disbursement schedules.

Liquidity for bond proceeds will be managed through the OSTF Pool or Bank deposit balances.

Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for resale and maturities are intended to be matched with expected outflows.

Information will be maintained for arbitrage rebate calculations.

11.0 INVESTMENT OF RESERVE OR CAPITAL IMPROVEMENTS

Pursuant to ORS 294.135(1)(b), reserve or capital Improvement project monies may be invested in securities exceeding three years when the funds in question are being accumulated for an anticipated use that will occur more than 18 months after the funds are invested, then, upon the approval of the governing body of the county, municipality, school district or other political subdivision, the maturity of the investment or investments made with the funds may occur when the funds are expected to be used.

12.0 POLICY COMPLIANCE AND PERFORMANCE STANDARDS

12.1 Compliance Report:

A compliance report shall be maintained quarterly, to document the portfolio versus the investment policy.

12.2 Compliance Measurement and Adherence

- a. Compliance Measurement:
Guideline measurements will use market value of investments.
- b. Compliance Procedures:
 - i. If the portfolio falls outside of compliance with adopted investment policy guidelines or is being managed inconsistently with this policy, the Investment Officer shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.
 - ii. Violations of portfolio guidelines as a result of transactions; actions to bring the portfolio back into compliance and; reasoning for actions taken to bring the portfolio back into compliance shall be documented and reported to the Finance Committee.
 - iii. Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.
 - iv. As determined on any date that the security is held within the portfolio. If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Finance Director shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be

held or sold. The Finance Director will apply the general objectives of Safety, Liquidity, Yield and Legality to make the decision

12.3 Performance Measurement:

- The liquidity component yield will be compared quarterly to the LGIP average yield.
- The core portfolio will be invested into a predetermined structure that will be measured against a selected benchmark portfolio. The structure will be based upon a chosen minimum and maximum duration (average maturity) and will have the objective to achieve market rates of returns over long investment horizons. The purpose of the benchmark is to appropriately manage the risk in the portfolio given interest rate cycles. The core portfolio is expected to provide similar returns to the benchmark over interest rate cycles, but may underperform or outperform in certain periods. The portfolio will be positioned to first protect principal and then achieve market rates of return. The benchmark used will be a 0-3 year or 0-5 year standard market index and comparisons will be calculated monthly and reported quarterly.
- When comparing the performance of the City's portfolio, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.

13.0 INVESTMENT POLICY ADOPTION

This Investment Policy shall be reviewed by the City's Finance Committee and adopted by City Council annually in accordance with ORS 294.135(a).c. Any significant changes to the policy must be reviewed by the Oregon Short Term-Fund Board prior to submitting to City Council for adoption.

14.0 GLOSSARY OF TERMS

Accrued Interest: The interest accumulated on a security since the issue date or since the last coupon payment. The buyer of the security pays the market price plus accrued interest.

Agency Securities: See "Federal Agency Securities."

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

Basis Point: A basis point is a unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form. In most cases, it refers to changes in interest rates and bond yields.

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

Bond: An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and it is usually secured by specific assets. Most bonds have a maturity of greater than one year and in general, pay interest semiannually.

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

Call: An option to buy a specific asset at a certain price within a certain period of time.

Callable: A bond or preferred stock that may be redeemed by the issuer before maturity for a call price specified at the time of issuance.

Call Date: The date before maturity on which a bond may be redeemed at the option of the issuer.

Certificate of Deposit (CD): Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity).

Collateral: Securities or other property that a borrower pledges as security for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

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

Core Fund: Core funds are defined as operating fund balance which exceeds the City's daily liquidity needs. Core funds are invested out the yield curve to diversify maturity structure in the overall portfolio. Having longer term investments in a portfolio will stabilize the overall portfolio interest earnings over interest rate cycles.

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

Coupon Rate: The annual rate of interest that the issuer of a bond promises to pay to the holder of the bond.

Current Maturity: The amount of time left until an obligation matures. For example, a one-year bill issued nine months ago has a current maturity of three months.

Current Yield: The coupon payments on a security as a percentage of the security's market price. In many instances the price should be gross of accrued interest, particularly on instruments where no coupon is left to be paid until maturity.

CUSIP: A CUSIP number identifies securities. CUSIP stands for Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

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

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

Discount Notes: Short term debt obligations issued by Federal Agencies at a discount. Discount notes mature at par and can range in maturity from overnight to one year. Discount Notes typically have very large primary (new issue) and secondary markets.

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

Federal Agency: Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets.

Federal Farm Credit Bank (FFCB): A Government Sponsored Enterprise (GSE) system that is a network of cooperatively owned lending institutions that provide credit services to farmers, agricultural cooperatives and rural utilities. The FFCBs act as financial intermediaries that borrow money in the capital markets and use the proceeds to make loans and provide other assistance to farmers and farm-affiliated businesses. FFCB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance

to the U.S. Financial system and agricultural industry. Also issues notes under its "designated note" program.

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

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

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

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

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

Finance Committee: Subcommittee of the City Council appointed by the Mayor on an annual basis.

General Obligation Bonds (GOs): Bonds secured by the pledge of the municipal issuer's full faith and credit, which usually includes unlimited taxing power.

Government Bonds: Securities issued by the federal government; they are obligations of the U.S. Treasury. Also known as "governments."

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

Interest: Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

Interest Rate: The interest payable each year on borrowed funds, expressed as a percentage of the principal.

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

Investment Portfolio: A collection of securities held by a bank, individual, institution, or government agency for investment purposes.

Investment Securities: Securities purchased for an investment portfolio, as opposed to those purchased for resale to customers.

Liquidity: The ease at which a security can be bought or sold (converted to cash) in the market. A large number of buyers and sellers and a high volume of trading activity are important components of liquidity.

Liquidity Component: A percentage of the total portfolio that is dedicated to providing liquidity needs for the City.

Mark to Market: Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation.

Municipals: Securities, usually bonds, issued by a state or its agencies. The interest on "munis" is usually exempt from federal income taxes and state and local income taxes in the state of issuance. Municipal securities may or may not be backed by the issuing agency's taxation powers.

NRSRO: A "Nationally Recognized Statistical Rating Organization." A designated rating organization that the SEC has deemed a strong national presence in the U.S. NRSROs provide

credit ratings on corporate and bank debt issues. Only ratings of a NRSRO may be used for the regulatory purposes of rating such as Moody's, S&P, Fitch and Duff & Phelps.

Par Value: The value of a security expressed as a specific dollar amount marked on the face of the security, or the amount of money due at maturity. Par value should not be confused with market value.

Prudent Person Standard: Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee will act with care, skill, prudence, and diligence under the circumstances the 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 entity.

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

State of Oregon Local Government Investment Pool (OSTF – Oregon Short Term Fund): The OSTF is organized pursuant to ORS 294.805 through 294.895. Participation in the Pool will not exceed the maximum limit annually set by ORS 294.810.

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

Treasury Bill (T-Bill): An obligation of the U.S. government with a maturity of one year or less. T-bills bear no interest but are sold at a discount.

Treasury Bonds and Notes: Obligations of the U.S. government that bear interest. Notes have maturities of one to ten years; bonds have longer maturities.

Yield: The annual rate of return on an investment, expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security. Net yield, or yield to maturity, is the current income yield minus any premium above par or plus any discount from par in the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Yield to Maturity: The average annual yield on a security, assuming it is held to maturity; equals to the rate at which all principal and interest payments would be discounted to produce a present value equal to the purchase price of the bond.

